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THE PAYCHECK PROTECTION PROGRAM: PERFORMANCE, IMPACT, AND NEXT STEPS

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

OF THE

UNITED STATES SENATE

ONE HUNDRED SEVENTEENTH CONGRESS

FIRST SESSION

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THE PAYCHECK PROTECTION PROGRAM: PERFORMANCE, IMPACT, AND NEXT STEPS

WEDNESDAY, MARCH 17, 2021

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Washington, DC.

The Committee met, pursuant to notice, at 2:30 p.m. in Room 301, Russell Senate Office Building, Hon. Ben Cardin, Chairman of the Committee, presiding.

Present: Senators Cardin, Cantwell, Shaheen, Booker, Duckworth, Rosen, Hickenlooper, Paul, Ernst, Young, Hawley, and Marshall.

OPENING STATEMENT OF HON. BENJAMIN L. CARDIN, CHAIRMAN, A U.S. SENATOR FROM MARYLAND

Chairman CARDIN. The Small Business and Entrepreneurship Committee will come to order. Let me welcome those of you who are in this room, and we know we have members and witnesses that are appearing through Webex, which is the new reality of the world we are living in today.

So let me thank first Senator Paul for his help and cooperation in putting together this first of our oversight-type hearings on the programs that were put together in response to COVID–19 for small businesses. It totals over $1 trillion that has been made available for small businesses, and this Committee has the responsibility to oversight of those programs we are operating. I know several members of the Committee have raised those questions about oversight, and this is our first opportunity to hear from private sector witnesses who will give us their view on how these programs are working to date.

I would also like the Committee to know that we anticipate having an opportunity next week, with representatives of the SBA present to answer questions that we may have in regards to the small business programs, to continue our effort on oversight.

In the meantime, let me also point out to the Committee that yesterday the Senate confirmed Isabel Guzman as the Administrator of the SBA, and again I want to thank Senator Paul for accommodating the ability to get that nomination to the floor in an expedited fashion. So we now have a confirmed administrator. It was a strong bipartisan vote on the floor, which I certainly appreciate, and I think we are off to a very good start with the SBA.

We have one immediate issue that will be brought to our attention next week, so let me make sure the Committee members know about that. Many of you have already communicated with us that we have a deadline coming up at the end of March for applications for the PPP program. And since December, when Congress acted on the second round of PPP and some additional eligibilities, there have been significant challenges that have been placed in administering the PPP program.

First, the second round of PPP requires different verifications. There is a need base, so that has to be put into the equation on the applications that are made for the second round of PPP.

Secondly, we have had a real concern for the self-employed and those who do not have employees as to the calculations of the funds they can get under the PPP program, which was recently clarified by the Biden administration. So we have now some additional applications that are coming in with the clarification on the formula.

We have had some changes in eligibility under the PPP program, including what was recently done on the American Rescue Plan. We had a change in administration. On January 20th we changed from the Trump administration to the Biden administration. All that has made it much more challenging for us, for small businesses, to get their applications processed by the March 31st deadline.

It is for that reason that we are looking at an extension. The good news is that the resources are there. We have been informed by the SBA that the extension of the deadline can work within the funds that have already been made available by Congress. This is not the first time we did this.

Let me remind the members that after the original PPP program I brought a bill to the floor of the Senate, and Senator Rubio worked with me on that, with an extension to give more time for businesses to file for their PPP forgivable loans. Senator Collins has filed legislation in the Senate. We have bipartisan legislation to extend that date by two months. The good news, again, is this legislation was just passed by the House of Representatives by a 415 affirmative to 3 negative vote, overwhelmingly passed by the House of Representatives.

Today, the Committee has received a letter, signed by 90-some organizations, in support of a clean extension of the PPP program. I would just point out that it includes the NFIB, it includes the Chamber of Commerce, it includes so many other organizations that are telling us that they need additional time. And the reason I mention this is I hope that this will clear the hotline and we can do it by consent as early as next week. If not, Senator Schumer has told me that we can have four times we may be on the floor next week in regards to the extension.

I would urge my colleagues to continue in a bipartisan way to support this extension in a clean manner. We will have opportunities to look at changes or modifications in the program, and I can assure you that the way that is going to be done is in a bipartisan manner, both Democrats and Republicans working together, as we have throughout the entire development of the programs to help small businesses.

One year ago today, COVID–19 had just been declared a global pandemic by the World Health Organization, as well as a national emergency by the Trump administration, and there were less than

1,500 reported cases of COVID–19 in America. Soon after it became clear that the public health measures required to prevent the spread of the virus would hurt small businesses, so Congress had a duty to provide support, because our national economy is only strong when we have healthy, robust small businesses.

Small businesses are our job creators and are responsible for two out of every three new jobs, and employ almost half of our Nation's private sector workforce during the years leading up to the pandemic. And they are where innovation happens in our economy. They are the entities that are figuring out better, more efficient ways of doing things. But they are not as resilient as larger businesses, due to the razor-thin margins and low cash reserves.

So we passed the historic, bipartisan CARES Act, which created the Paycheck Protection Program as well as the EIDL advance grant program and the Small Business Debt Relief Program. PPP has played the largest role of all programs, providing more than 7.9 million loans worth more than $700 billion in the past year.

I mention that because I know we all have our individual stories. I am going to tell you, just this past weekend I went to one of my favorite local restaurants, and I had a chance to talk to the store owner. He is a businessperson with less than ten employees. And he told me that without the help he has gotten from the PPP program, and now this restaurant program that has just passed, he would have had to close his doors. We have kept him open, and he is a very creative innovator. He has figured out different ways in order to keep revenue coming into his business. But these programs have been essential so that these small business owners can stay in business during the pandemic.

The goal of the PPP was simple: help employers keep their employees on payroll during the pandemic so our economy can rebound more quickly afterwards. During the drafting of the CARES Act, Senator Shaheen and I knew that while PPP would be a lifeline for small businesses, the program's reliance on private lenders would make it less useful to small businesses and black, Latino, Native, and rural and other underbanked communities that do not have strong relationships with banks.

So we put a provision in the bill that required the SBA to issue guidance to banks participating in PPP to prioritize loan applications for underserved small businesses. Unfortunately, SBA did not do that, which led the SBA inspector general to issue a report that found the SBA's implementation of PPP did not fully align with the congressional intent in the CARES Act.

That is why Senate Democrats pushed for specific set-asides in PPP for community development financial institutions, minority depository institutions, microlenders, and other mission-based lenders, each COVID–19 relief bill Congress has passed since the CARES Act. When Congress replenished the PPP funds in April of last year, we secured a $60 billion set-aside for mission lenders. In the bipartisan Economic Aid Act, which passed in December, we secured another $15 billion set-aside for mission lenders, as well as an additional $60 billion set-aside for the smallest small businesses with ten or fewer employees.

We pushed for the lender set-asides because CDFIs and MDIs and other mission lenders have a demonstrated history of getting capital into the hands of entrepreneurs in underserved and underbanked communities, as we push for the borrower set-aside, because we had to ensure the funds would remain available for the smallest mom-and-pop businesses that cannot afford accountants and lawyers, so they need more time and assistance to get their applications together.

I was proud last month when the Biden administration came out with certain guidelines and made it easier for businesses in underserved communities to be able to get those loans, by having an exclusive time period and changing some of the rules that would help deal with the underserved community.

I am proud to share that data from the SBA on the the current amount of PPP shows that thanks to the Economic Aid Act and steps taken by the administration we are seeing progress, which indicates that more of the smaller, and more vulnerable small businesses are receiving loans this time than during the initial round of PPP.

The historic American Rescue Plan that President Biden signed into law last week made further improvements to PPP by expanding access to the program to more nonprofits. We have witnesses today who will talk about that. I know that we have, from Baltimore, John Hoey, who leads a nonprofit that was unable to access PPP prior to the passage of the American Rescue Plan, the YMCA of Central Maryland. So I am looking forward to hearing directly how important access to PPP will help organizations such as the Y.

I am also looking forward to hearing from Lisa Mensah, who is President and CEO of the Opportunity Finance Network, a network of CDFIs, about her members' experiences with PPP, what has worked and what has not with PPP, as well as the need to extend PPP to give borrowers additional time to get their applications.

So for all those reasons I look forward to hearing from our witnesses. I look forward to hearing from Mr. Polumbo, who is personally present here, who can help us sort out the bill. Joel Griffith, from The Heritage Foundation, is on, I think Webex.

So we have an excellent group of panelists, and let me now turn to the Ranking Member, Senator Paul.

OPENING STATEMENT OF HON. RAND PAUL, A U.S. SENATOR FROM KENTUCKY

Senator PAUL. Thank you, Mr. Chairman. I would like to welcome our panel today. Welcome today 367 of 15 days to slow the spread. Proponents of the economic lockdowns promised it would be just 15 days to flatten the curve. Instead of 15 days, the lockdown has now gone on for over a year.

Early on in the pandemic, as we all remember, there were projections that hospitals would be full and have to turn away people, medical equipment was in short supply, businesses were closing, what they hoped would be on a temporary basis as governments started locking down their economies and telling people to stay home. At that time, when programs like PPP were created, no one was under the belief that we would still be doing this a year later, with no end in sight.

The PPP program was devised as an emergency stop-gap to keep businesses running and people on payroll, at their job, instead of having to be laid off. It has been a year now. The virus is in full retreat. Hospitalizations are declining rapidly. Vaccines have been rolling out since December. Instead of touting these incredible successes and offering people hope, governments keep moving the goalposts. Our hospitals are not overcrowded. We do not have PPE shortages. All the reasons the economy locked down in the first place are no longer a concern. It is time to reopen our economy.

What we have learned is that this continued stream of money from Washington has encouraged way too many governors and mayors to keep their economies closed indefinitely. They stifle their economies, roll yellow police tape across store shelves and threaten small businesses with revoking licenses, or worse, then demand Washington cleanup their mess when the businesses have to shut down for good. We should demand these elected official stop imposing arbitrary rules and stop illogically picking winners and losers. We simply cannot keep printing and borrowing trillions of dollars when the best thing we can do to provide relief now is to simply reopen the economy.

Congress has spent more than $800 billion on the Paycheck Protection Program alone, and according to our estimates, we burn through $3.5 billion a day in taxpayer dollars. In just one year, the Small Business Administration went from being a million-dollar agency to nearly a trillion-dollar agency. No agency is equipped for that kind of exponential growth in such a short time.

Without adequate controls, the program has benefited large, well-financed businesses, alleged fraudsters and organizations like Planned Parenthood. Despite the widespread evidence of fraud and misuse within the PPP, Congress expanded and funded the program four times. The President's recently signed $1.9 trillion packages provided even more funding for PPP, despite signs of economic recovery, and many in Congress are discussing yet another extension of the program past its March 31st deadline.

Meanwhile, the Small Business Administration inspector general has produced ten reports on the lack of SBA oversight of this program. The Department of Justice has charged 184 defendants with crimes related to PPP fraud, and the Government Accountability Office has now put emergency small business loans on its high-risk list, for the first time in history.

Small businesses are thriving in states that have eased restrictions. It is clear that there is pent-up demand for Americans to go back to their normal lives. This is, in many ways, a crisis of Congress' and governors' own making.

I look forward to our discussion today on how we can improve the effectiveness and oversight of the program and how small businesses get back to business.

Chairman CARDIN. Thank you, Senator Paul.

Our first witness comes to us through Webex, and that is Lisa Mensah, who is President and CEO of the Opportunity Finance Network, the Nation's leading network of community development financial institutions. Under her leadership, the Opportunity Finance Network helps CDFIs leverage public funding with private investment from mainstream financial institutions, socially responsible investors, and philanthropic partners in distressed communities across America.

For all of our witnesses, your full statements will be made part of the record. We ask that you try to summarize your testimony in five minutes.

Ms. MENSAH.

STATEMENT OF LISA MENSAH, PRESIDENT AND CEO, OPPORTUNITY FINANCE NETWORK, WASHINGTON, DC

Ms. MENSAH. Thank you. Thank you, Chairman Cardin and Ranking Member Paul and members of the Committee for the opportunity to be here today.

I am here to speak for America's smallest businesses and the lenders that matter most to them, community development financial institutions, or CDFIs. I lead Opportunity Finance Network, a network of more than 350 CDFIs, working in all 50 States.

The American people saw this past year just how valuable our Nation's smallest businesses are to everyone. Ensuring that Federal relief funds make it to these businesses requires partnership with lenders that specialize in serving them. It takes CDFIs.

CDFIs know how to quickly deliver responsible capital to America's underserved businesses, including Paycheck Protection Program loans. Through the Paycheck Protection Program, Congress said to these businesses, "You matter," and the program also showed just how much lenders matter to these businesses.

It is well-documented how the first round of PPP missed many of these underserved businesses, in part because it missed their lenders, CDFIs. An OFM has testified before this Committee about the challenges that CDFI faced in the early days of the program, and Congress listened.

I especially want to thank this Committee and Chairman Cardin for all of your work to reform the PPP as part of last December's COVID relief bill. Our industry is encouraged by your recognition that CDFIs are best positioned to drive PPP to businesses owned by people of color, businesses owned by women, and many underserved by the mainstream financial markets.

And SBA heard us too. They prioritized the needs of these small businesses in the second round. During the first week of the most recent PPP round, the agency only accepted PPP applications from community financial institutions, including CDFIs, and this was a welcome improvement from the CDFI experience in the earliest months of the original program.

And while there were real challenges in the rollout, CDFIs and other small lenders made more than 60,000 PPP loans, totaling more than $5 billion, and these loans helped small businesses like Alcantara Driving School in Silver Spring, Maryland. The CDFI Latino Economic Development Center provided two PPP loans, totaling $35,000, to help the Latino-owned business stay afloat after devastating revenue losses during the pandemic.

We also saw the SBA's new calculations for the self-employed and smallest businesses, and these changes will help many minority businesses qualify for more funding.

I am so pleased to see CDFIs helping PPP reach more underserved small businesses, but our work is not finished. We need more time, and we need more help from Congress for the Paycheck Protection Program to realize its full promise.

So we have two recommendations for PPP. First, extend this program to May 31st. Congress needs to move quickly to adopt the PPP Extension Act of 2021 and to give more businesses the chance to get access to this important program. And second, make retroactive the new income calculations. The changes to income calculations for the smallest businesses, sole proprietorships often, were an important policy change.

For example, the CDFI HOPE Enterprise shared that a Black woman-owned boutique in Alabama qualified under the old rules for a PPP loan of about $7,500, but with the changes she qualified for a loan of more than $22,000. But the new rules only apply to PPP loans made after March 3rd, so for those businesses that already received PPP loans, we need retroactivity so that they too can benefit from the change.

I see PPP as critical emergency relief, yet for the American economy to rebound and flourish, small businesses need more than PPP. They need responsible loans, credit enhancements, and working capital.

So let me close on next steps. First, Congress must direct the SBA to make CDFIs central to its strategy. The inability of SBA's core programs to reach underserved communities was never acceptable, and it cannot continue. The SBA need to fully rethink how to reach underserved businesses in its entire suite of programs, not just PPP and not just the Community Advantage and microloan programs.

And second, Congress must double down on its efforts to strengthen the financial institutions who are providing responsible finance in low-wealth markets. And this can be done by providing $1 billion in annual appropriations for the CDFI fund.

Congress and the American people have pulled together to help America's small businesses during this painful crisis, and right now Congress can take steps to build a stronger and more inclusive economy for the long term. CDFIs are pivotal to this work, and I urge Congress to invest in the institutions that are here, on the ground, in our rural, urban, and native communities. Your investment in CDFIs tells our smallest businesses that they matter today and tomorrow.

Thank you so much.

[The prepared statement of Ms. Mensah follows:]

OPPORTUNITYFINANCE NETWORK

Testimony of Lisa Mensah

President and CEO, Opportunity Finance Network

Provided to the Senate Committee on Small Business and Entrepreneurship

March 17, 2021

Thank you for holding this hearing entitled: "The Paycheck Protection Program: Performance, Impact, and Next Steps". My name is Lisa Mensah, President and CEO of the Opportunity Finance Network (OFN). I am pleased to be here today to testify about why community development financial institutions (CDFIs) are critical to helping the Paycheck Protection Program (PPP) and other federal relief reach underserved businesses.

OFN is a national network of CDFIs: mission-driven community development banks, credit unions, loan funds, and venture capital funds investing in opportunities that benefit low-wealth communities across America. As specialized lenders that focus on underbanked communities, CDFIs are uniquely poised to deliver federal relief resources to businesses owned by people of color, very small businesses, and other under-resourced businesses in urban, rural, and Native communities.

For nearly 40 years, CDFIs have provided responsible, affordable capital where it is needed most: CDFI customers are 84 percent low-income, 60 percent people of color, 50 percent women and 26 percent rural.[1] Nationwide, the more than 1,100 CDFIs certified by the US Treasury Department's CDFI Fund manage more than $222 billion. CDFIs are also experienced small business lenders with deep expertise reaching low wealth markets. In fiscal year (FY) 2019, certified CDFIs had more than $24 billion of small business and microloans in their portfolios.[2] With cumulative net charge-off rates of less than 1 percent, CDFIs lend prudently and productively in markets underestimated by mainstream banks.[3]

The State of America's Small Businesses

One year into the pandemic, America's small businesses are still suffering from the economic impacts of COVID-19. The Census Bureau's "Small Business Pulse Survey" found that in early March 2021, nearly 72 precent of small businesses report the pandemic had a moderate or large negative impact on their business.[4]

The Federal Reserve's 2021 Small Business Credit Survey Report found 57 percent of firms characterized their financial condition as "fair" or "poor." That number increases to 79 percent for Asian-owned firms and 77 percent for Black-owned firms. In addition, the share of firms that experienced financial challenges in the prior 12 months rose from 66 percent to 80 percent between 2019 and 2020. In response to those challenges, 62 percent of businesses firms used personal funds and 55 percent cut staff hours and/or downsized operations. [5]

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[1] Opportunity Finance Network, "Impact Performance", https://ofn.org/impactperformance
[2] Opportunity Finance Network, 2019 CDFI Fund Annual Certification Reporting Database", Accessed November 19, 2020.
[3] Opportunity Finance Network, "Impact Performance", https://ofn.org/impact-performance
[4] U.S. Census Bureau, "Small Business Pulse Survey", March 11, 2021, Accessed March 13, 2021, https://portal.census.gov/pulse/data/
[5] Federal Reserve, "2021 Small Business Credit Survey Report on Employer Firms", Accessed March 13, 2021, https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/2021-sbcs-employer-firms-report

As small businesses struggle, they continue to look to the federal government for assistance. The Paycheck Protection Program (PPP) is one of the cornerstones of the federal government's COVID-19 response – with more than $800 billion allocated so far. The program has helped many small businesses survive the pandemic. More than 90 percent of small businesses surveyed in the Small Business Credit Survey sought emergency funding to weather the financial impacts of the pandemic – 82 percent applied for PPP.[6] The popularity of the program makes it even more imperative to implement improvements to make it more effective. As OFN noted in previous testimony before the Senate Small Business and Entrepreneurship Committee, Round 1 of PPP was riddled with challenges, resulting in many eligible businesses – especially minority-owned women-owned, and businesses in low-wealth communities - missing out on accessing a PPP loan.[7]

Praise to Congress for making Critical Improvements to PPP in COVID-19 Relief Legislation

Late last year, after continued urging by OFN, community lenders, and small businesses, Congress prioritized small businesses located in low-wealth communities in the extension of the PPP. The new round of PPP delivered as part of HR 133, Consolidated Appropriations Act, 2021 provided $284 billion in new PPP funds along with programmatic improvements to improve the program's reach and flexibility.[8] OFN was pleased to see Congress restructure and reform the PPP to reach the most underserved small businesses.

These program modifications helped CDFIs take a larger role in PPP lending including:

- $15 billion set-aside for CDFIs, Minority Depository Institutions (MDIs), and other mission lenders;
- Set-asides for first-time PPP loans to businesses with 10 or fewer employees, sole proprietors and the self-employed, nonprofits, and for loans less than $250,000 to businesses located in low- to moderate-income (LMI) areas;
- Allowing second draw PPP loans for hard-hit businesses;
- Simplifying the forgiveness application process for loans of $150,000 or less;
- Repealing the requirement to deduct an Economic Injury Disaster Loan (EIDL) advance from the PPP forgiveness amount;
- Changing the fee structure to ensure lenders could continue to make smaller loans and provide the technical assistance needed to navigate the application and forgiveness process; and
- Clarifying the tax status of business expenses paid with forgiven PPP loans.

Rocky Initial Implementation of New PPP Round

The new round of PPP built on the lessons learned from the first round, starting from a much stronger foundation. With the new changes in place, lenders were optimistic about implementation of this round of PPP – hoping many of the bumps along the way had been smoothed. The CDFI industry was encouraged by the SBA's recognition that CDFIs and other community lenders are best positioned to drive PPP resources to minority-owned, women-owned, and other underserved

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[6] Ibid.
[7] Opportunity Finance Network, OFN Testimony on the Future of the Paycheck Protection Program before the Senate Small Business Committee, December 10, 2020, https://www.sbc.senate.gov/public/index.cfm/hearings?ID=FC8E242C-B966-4C5A-AD3C-83E17DDE6704.
[8] https://www.congress.gov/bill/116th-congress/house-bill/133

businesses. Unfortunately, some of the efforts to prioritize the needs of these small businesses were hampered by missteps in the program rollout.

The scale of the crisis facing small businesses necessitated rapid implementation of this new round of PPP. Receiving aid quickly was especially critical for very small, minority owned, and other marginalized businesses prioritized by Congress and the SBA. To reach these targeted businesses, only community financial institutions (CFIs), including CDFIs, were permitted to submit PPP applications when the program opened on January 11, 2021. Larger lending institutions were prohibited from submitting applications until January 19, 2021.

When this exclusive application window was announced, CDFIs and other CFIs raced to understand SBA's new systems and program rules, many of which were published only hours before the scheduled opening of the application period. In addition, CDFIs encountered challenges with the SBA's new lending platform, delayed and incomplete guidance from SBA, and limited access to technical assistance:

- **New lending platform -** SBA moved to a cloud-based platform aimed at reducing bottlenecks created when large number of applications from large lenders were submitted at once. However, guidance to help lenders use the system to process new PPP applications was unveiled just a few days before the portal opened, leaving little time for staff training or technical assistance. One CDFI noted that the initial glitches in the new SBA platform slowed their productivity by as much as 80 percent. In addition, the borrower information that was prepopulated in the E-tran system was not available in the new system portal. Lenders had to resubmit the information, wasting valuable processing time during the dedicated window.

  OFN members also noted that the shift from automatic approvals in the 2020 round of PPP to a loan approval time of up to 48 hours in 2021 slowed their ability to process a high volume of loans. Lenders expressed frustration as there was strong demand from new and existing customers for first and second draw PPP loans.

- **Delayed and incomplete guidance -** New loan documents and guidelines related to eligible uses of funds, expanded eligibility for new applicants, and requirements for borrowers seeking a second PPP loan were all made available to lenders less than 48 hours before the opening of the portal to CFIs. SBA's guidance on documentation requirements and critical details on the calculation of gross receipts was not released until January 17th and January 19th, more than a week after opening the program to CFIs. There were even more delays on obtaining guidance and materials on the accelerated applications for forgiveness on loans less than $150,000. The opening of the program to the public without key guidance created confusion and impacted the ability of CFIs to appropriately serve their customers.

- **Limited access to technical support -** Some CDFIs noted difficulty accessing timely assistance through SBA's helpline when technical problems arose. Updates to the PPP lending portal were made even as CFIs were processing loans, but without SBA providing appropriate technical assistance to help lenders understand those changes. Specifically, OFN members report that error messages were confusing, key calculations for loan amounts were inaccurate, and their staff encountered problems trying to connect with SBA staff.

  For example, calls to the PPP lender platform hotline directed you to submit an email, but most of those emails did not receive a reply – one lender reported only one of ten emails submitted received a response. While SBA did warn lenders to have patience and expect delays, these technical challenges negatively impacted the ability of CDFIs to fully take advantage of the dedicated access when the program opened.

Although the initial rollout of PPP Round 2 was very challenging, CDFIs and other small lenders once again stepped up to deliver critical relief to small businesses. During the dedicated window, CFIs made more than 60,000 PPP loans totaling more than $5 billion.[9]

Biden Administration Changes Provide Targeted Relief to Underserved Small Businesses

In February, the Small Business Administration implemented additional changes designed to prioritize the needs of very small businesses and businesses located in low- and moderate-income communities including:

- **Exclusive access for very small businesses** - A two-week window of dedicated access to the PPP loan system for businesses with fewer than 20 employees. During that period, the SBA only processed applications from those very small businesses. This dedicated access meant all lenders – not just mission lenders - were focused on the needs of underserved borrowers. This was an important policy decision that truly centered the needs of these businesses.

- **Recalculation of income for Schedule C filers** - Changes to income calculations for sole proprietors, independent contractors, and self-employed people to allow these businesses to apply for a loan through the program based on gross income rather than net income. The change will significantly increase the amounts for which these very small businesses qualify. OFN member Hope Enterprise Corporation noted the impact: a Black woman-owned boutique in Alabama qualified under the old rules for a PPP loan of $7,469. With the changes, she would qualify for a loan of $22,659.

- **Focus on low- and moderate-income communities** - An additional $1 billion set aside for businesses with employees located in low- and moderate-income areas, providing dedicated resources and greater access to PPP for many CDFI customers.

- **Expanded borrower eligibility** - Easing restrictions on borrowers with non-fraud felony convictions, delinquent student loan debt, and Individual Taxpayer Identification Number (ITIN) holders. CDFIs report that expanding eligibility increased demand for PPP loans among borrowers with nontraditional credit histories.

- **Greater communication and outreach to lenders** - SBA improved communication with lenders through webinars, direct phone calls to raise awareness of program changes and encourage lender participation. OFN has appreciated participating in weekly update calls with SBA which allowed us to reinforce SBA guidance with our members and share information in a timely manner.

- **Improvements to technical problems** - There were also improvements to some of the technical problems lenders encountered in the early days of Round 2. SBA ramped up processing of forgiveness applications and clearing hold and error codes, allowing thousands more applications to move forward.

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[9] U.S. Small Business Administration, "60,000 Paycheck Protection Program Loans Approved in First Week", Release Number 21-11, January 19, 2021. https://www.sba.gov/article/2021/jan/19/60000-paycheck-protection-program-loans-approved-first-week

Prioritizing the needs of these borrowers yielded results. The Biden Administration reports that during the two-week exclusive access window there was a 14 percent increase in loans to women-owned businesses, a 20 percent increase in loans to minority-owned businesses, a 12 percent increase in loans to businesses in rural areas, a 15 percent increase to businesses with fewer than five employees and a 25 percent increase to first-time borrowers.[10]

CDFIs have continued to be an integral part of reaching these businesses. The share of CDFI lending in PPP is 60 percent higher than in PPP Round 1. The following are examples of CDFI PPP lending in Round 2:

- Albuquerque, New Mexico- based **DreamSpring** has made 1,822 PPP loans totaling $48 million to small businesses in Arizona, Colorado, Florida, Georgia, Illinois, Iowa, Kansas, Missouri, Nevada, New Mexico, New York, North Carolina, Oklahoma, Texas, Utah, and Washington. The average loan size is approximately $26,000.

- Washington, DC–based **LEDC** made 64 PPP loans totaling $1,4 million to businesses in DC, Maryland, Virginia, and Puerto Rico. The average loan size is $21,501 – with an average loan size for businesses in Puerto Rico of $10,460. LEDC has received a high number of first-draw applicants, with most being sole proprietors, and reports an increase in the number of applications from their Puerto Rico market.

- Missoula-Montana-based **MoFi,** a CDFI serving Montana, Idaho. Oregon, Utah, Washington, and Wyoming made 1,466 Round 2 PPP loans totaling more than $28.87 million. The average loan size is $24,329. Sixty percent of MoFi's PPP clients found the CDFI through a bank or credit union referral.

- Austin, Texas-based **BCL of Texas** approved 84 loans totaling $2.34 million with an average loan size of about $27,900, All of BCL's Round 2 PPP loans are to businesses with fewer than 20 employees. The CDFI also reports an increase in volume of borrowers who now qualify through their annual gross income borrowers after the changes to the Schedule C filer loan application.

- Bedford, Texas-based **Capital Plus Financial** approved more than $99 million in PPP loans in Round 2 PPP loans with 95 percent of the loans for less than $150,000. The average business served has fewer than five employees, and the smallest PPP loan approved was $400.

Despite Improvements, Challenges Remain for PPP Lenders and Borrowers

OFN applauds SBA for continuing to make changes and conduct outreach to lenders and borrowers. The PPP has been a valuable lifeline to the businesses able to secure access, but challenges continue for participants:

[10] U.S. Small Business Administration, "Fact Sheet: Changes to Paycheck Protection Program by Biden-Harris Administration Increase Equitable Access to Relief", March 9, 2021, https://www.sba.gov/article/2021/mar/09/fact-sheet-changes-paycheck-protection-program-biden-harris-administration-increase-equitable-access

- **Access to capital for lenders** – Some CDFIs were limited in their ability to make more PPP loans because of challenges accessing lending capital. The Federal Reserve's PPP Lending Facility (PPPLF) has been critical to those who are able to access it, but not all CDFIs have been able to participate. Some CDFIs were able to access the facility by developing correspondent relationships with depository institutions that have master accounts with the Federal Reserve. However, the process was delayed and complex, limiting access to liquidity at a critical time when CDFIs needed it most. OFN is pleased to see the PPPLF extended through June 30. This will be especially valuable should Congress extend the PPP application deadline.

- **Delayed guidance from SBA -** SBA guidance to operationalize the changes put forth by the Biden Administration has not been timely. The Interim Final Rule related to the changes in Schedule C income calculations was not made available until March 3, 2021, again taking valuable time away from small businesses seeking to take advantage of the higher loan amounts.

- **Forgiveness process** – Several CDFIs noted the SBA is conducting onerous review of loan forgiveness applications, making documentation requests related to first round forgiveness in spite of the clear directive of Congress to streamline the process for smaller loans. Some CDFIs had to dedicate full-time staff to supporting clients whose loans are selected for forgiveness review by the SBA – reducing the time staff spend processing new PPP loans. The average loan size under review is modest, with many in the $1,000 range. Congress should clarify that the streamlined forgiveness process applies to all PPP leans, regardless of when the loan was made.

Significant Additional Federal Investment Needed to Support Small Business

The PPP was an important first step in addressing some of the challenges facing small businesses, but more must be done. With the prospect of pandemic restrictions on businesses easing as vaccination rates rise relief efforts must start to transition into recovery efforts. The lessons learned from the implementation of PPP should be carried forth in SBA's economic recovery programs. Federal recovery initiatives, particularly those at SBA, must be targeted to reach the most vulnerable businesses to ensure a more inclusive economic recovery. Federal programs that do not reach businesses owned by women, people of color, rural businesses, and other underbanked business are not successful and must be reformed.

In HR133, Congress made a significant investment in the CDFI industry's capacity by providing $3 billion in emergency grants. In addition, the recently passed American Rescue Plan includes support for small businesses through a $10 billion State Small Business Credit Initiative with set-asides for very small business, tribal businesses, and economically and socially disadvantage businesses. These federal investments are an important down payment but more is needed.

The following are OFN recommendations that will help ensure new federal resources reach the intended communities by enhancing the capacity of CDFIs to support the economic recovery:

- **Provide $1 billion in annual appropriations for the CDFI Fund –** The federal government put a down payment on the CDFI industry in HR133. More investments at this scale are needed. An annual appropriation of $1 billion for the CDFI Fund is critical to strengthening CDFIs to continue assisting in the long term recovery of low-wealth communities. To truly achieve an inclusive recovery, the federal government must increase the supply of capital to CDFIs, mission based responsible lenders that are adept at channeling those resources into distressed communities. This investment will also broaden the reach and impact of the federal government's investments.

While the PPP set-asides were critical in helping capital flow to small business owners impacted by the pandemic, only a small subset of CDFIs were able to become PPP lenders, and they used their own lending capital to make PPP loans to small business customers. SBA pays a small servicing fee to PPP lenders for each loan they make, but the funds for the loan itself comes from the PPP lender.[11] PPP loans are a short-term, focused financing tool to meet an immediate small business need, not a substitute for critical equity capital CDFIs need to support the medium- and long-term economic recovery. CDFIs are well positioned to respond to the financial needs of low wealth markets but need their own balance sheets to be stable in order to contribute to the economic recovery. This balance sheet stability is essential to allow CDFIs to continue to leverage private and philanthropic resources.

- **Extend PPP through May 31** – OFN urges Congress to quickly pass the PPP Extension Act of 2021 to extend the deadline until May 31, 2021 and provide an additional 30-day period for the SBA to process applications that are still pending. Thousands of business owners will not receive access to PPP without an extension. If the SBA PPP program closes on March 31, Jackson, MS-based CDFI HOPE estimates 1300 loans for businesses that have applied for assistance will not be funded – of which 98 percent are businesses with fewer than 20 employees, 95 percent are minority-owned businesses, and nearly 100 businesses are veteran or veteran spouse-owned businesses.

  As other lenders are closing down their programs early and/or not complying with the newly enacted Schedule C changes, these smallest businesses, particularly those in communities of color, continue to seek PPP loans from CDFIs. These lenders then have the triple duty of processing loans already in the pipeline, working to implement the new Schedule C changes which benefit most of their borrowers, and picking up the unmet need left by the banks' inaction. An extension would enable all lenders to meet the ongoing demand for PPP loans.

- **Make retroactive Schedule C income calculations -** The new loan calculation for Schedule C filers is only available to businesses approved after the regulations were finalized on March 3, 2021. If businesses have already been approved, they cannot re-apply or gain access to the new formula changes unless Congress makes the changes retroactive, as they have done for ranchers and farmers. SBA has suggested approved businesses cancel PPP loans and reapply, however, with many lenders making provisions to stop taking applications by the middle of March, some businesses may receive no relief at all. Unless Congress acts to make the Schedule C changes retroactive, these businesses will not benefit from the recalculation of their PPP loan size based on gross income.

- **Direct SBA resources to small businesses located in low-wealth markets or owned by historically underserved groups –** The inability of SBA's core programs to reach low wealth communities, businesses owned by people of color, very small businesses, and other under-resourced businesses can no longer be accepted. The success of refocusing PPP to meet the needs of the most underserved borrowers demonstrates the importance of SBA using the entirety of its resources to stabilize and support the most vulnerable small businesses.

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[11] U.S. Small Business Administration, "Paycheck Protection Program Interim Final Rule", Issued April 2, 2020. https://www.sba.gov/document/policy-guidance--ppp-interim-final-rule

Congress must make improvements to the SBA's core programs, including 7(a), Community Advantage, 504, and the Microloan program to ensure that their primary focus is increasing access to capital for these businesses. To survive the pandemic, businesses will need access to responsible, affordable loans, credit enhancements, and working capital in addition to PPP's payroll support. Programs that prioritize CDFI participation like the 7(a) Community Advantage program and the SBA Microloan program are more successful at reaching underserved businesses, especially businesses owned by women and people of color. Enhancing CDFI participation and making improvements to these programs will help reach more underbanked businesses.

- **Fully Fund Section 1112 CARES Act debt relief program -** The SBA's debt relief program was a critical lifeline for many CDFIs and their borrowers. The six months of payments eased borrower's debt burden while the SBA's payments of interest and fees to lenders helped relieve stress on balance sheets from lost revenue. For some CDFIs, this additional capacity enabled them to offer their own emergency loan products or administer state and local aid programs.

  The $3.5 billion provided for the debt relief program in HR133 was insufficient to fund these extensions, causing SBA to proportionally reduce the number of months of relief provided to each borrower. The economy is still fragile, and many small business owners can ill afford to start making debt payments, especially those with loans under the Community Advantage and Microloan programs. OFN urges Congress to provide more funding for Section 1112 payments to ensure small businesses continue to have access to the capital they need to keep their doors open.

- **Make permanent the Community Advantage pilot program -** More than a decade after its inception, the SBA's 7(a) Community Advantage program remains in pilot phase despite its proven ability to reach underserved borrowers. In addition, the definition of underserved borrower remains too narrow – excluding women and people of color at a time when their businesses are in most need of access to capital. Congress must make these program changes before the pilot program is set to expire in 2022.

- **Make permanent enhancements to Microloan and Community Advantage programs** HR 133 made temporary changes to the SBA Microloan and Community Advantage programs. Congress should make these changes permanent:

  - increase the amount of time Microloan borrowers have to repay their loans to eight years;
  - increase the outstanding aggregate amount each Microloan intermediary may borrow from $6 million to $10 million;
  - waive the Microloan program's matching requirements for the technical assistance grants and the 50 percent limitation on pre-loan technical assistance; and
  - increase to 90 percent the loan guarantee amount for Community Advantage loans.

- **Repeal the Microloan Program's 1/55th Rule -** Congress should also repeal the Microloan program's 1/55th rule that prevents SBA from distributing more than 1/55th of its funding in any given state during the first half of the year. Microlenders are on the front lines of saving small business in America. The patient, flexible capital and technical assistance offered by microloan intermediaries is more important than ever in the current economic and health crisis. The 1/55th rule is a serious impediment to finds reaching high-need areas.

Designed to ensure widespread availability of program funds, the rule is no longer needed. The Microloan program is widely available; there are 154 intermediaries working in 46 states, the District of Colombia and Puerto Rico. However, these organizations are in most cases unable to borrow additional funds to make microloans until the third or fourth quarter of the fiscal year. This creates an administrative bottleneck for the SBA, limits cash availability for lenders, and creates a paperwork burden for intermediaries. Eliminating this requirement will improve program efficiency and reach more businesses.

CDFIs are Essential to Financing Justice

The implementation of the Paycheck Protection Program has provided valuable lessons. Policies that prioritize the needs of very small, minority and women-owned businesses and businesses located in low-wealth communities achieve positive outcomes. Prioritizing these businesses requires partnership with lenders that specialize in serving them; it takes CDFIs.

To truly reach the businesses and communities that need help the most, Congress must invest in scaling the CDFI industry. Policymakers should incorporate CDFIs as partners across the federal government and make major investments in proven solutions and programs that enable the industry to grow. This is both an effective and smart investment for the federal government: investing in CDFIs means small amounts of public subsidy are leveraged to amplify its impact.

The nation's small businesses cannot afford for CDFIs to be an afterthought in public policy. The PPP experience demonstrated that when CDFIs are empowered with supportive policies coupled with capital they outperform other lenders. With targeted resources from the public sector and partnership with CDFIs, our country's small business sector can weather the pandemic and recover to thrive. Focusing on reaching unbanked and underbanked businesses through CDFIs, the lenders best equipped to serve them, will ensure a more equitable recovery.

Thank you for the opportunity to speak with you today. I look forward to your questions.

Chairman CARDIN. Well, thank you very much for your testimony and for the work that you do in underserved communities.

Our next witness is coming to us through Webex, Joel Griffith, who is currently a Research Fellow for the Institute for Economic Freedom and Opportunity at The Heritage Foundation. He previously worked as a researcher for a former member of The Wall Street Journal editorial board.

Mr. GRIFFITH.

STATEMENT OF JOEL GRIFFITH, RESEARCH FELLOW, FINANCIAL REGULATIONS, THE HERITAGE FOUNDATION WASHINGTON, DC

Mr. GRIFFITH. Thank you, Chairman Cardin and Ranking Member Paul and other members of the Committee for this opportunity to testify today. This testimony will provide an overview of the economic calamity that has been impacting our Nation stemming from the COVID–19 shutdowns, the varied strength of the economic recovery from state to state, small business lending conditions, and the Paycheck Protection Program, of course, PPP.

Beginning in March of last year, our Nation witnessed an historic plunge in economic output. For the first time in our Nation's history, governments across the country intentionally suppressed the supply of goods and services. Likewise, restrictions on consumer activity artificially suppressed demand. The Federal Government borrowed, printed, and spent trillions of dollars in an effort to cushion the economic downturn. But it is really the government-mandated closures that are now deterring investment and suppressing economic activity in parts, but not all, of the country.

In the weeks following the onset of the pandemic, some Federal Government aid to businesses impacted by shutdown orders was justifiable, but after a year, we know that serious problems exist with PPP. It has been inefficient, untargeted, and ineffective, and we know that those areas of the Nation that have reopened are now experiencing an economic boom, a far, far stark difference compared to New York City and L.A.

The small business loan problem has been ineffective at boosting employment. Three initial assessments of PPP found that the program cost between $109,000 and $380,000 per job saved. On the other hand, the economic resurgence in Quarter 3 of 2020, even as PPP payments declined, underscores how reopening can rapidly repair economic damage.

Unemployment rates and business conditions vary wildly across the Nation, and that is dependent largely on the restrictions that some governors and mayors continue to impose on society. State and local policymakers oversee decisions that affect businesses' abilities to operate, and they should assume the potential costs of new and ongoing businesses, school, and other closures that they, on the state and local level, impose. States with the most restrictive economic policies are the ones that are suffering the largest business and employment losses.

Federal taxpayers should not continue to subsidize state and local decisions to shutter businesses and ruin livelihoods. Continuing this PPP program moves the costs of overly restrictive shutdowns to Federal taxpayers and it allows governors additional latitude to keep society shuttered with one-size-fits-all policies. Targeted, temporary, and local economic restrictions may be necessary, but those decisions, and the costs that they incur, should be weighed by the responsible policymakers on the state and local level. PPP continues to incentivize state and local policymakers to continue destructive shutdowns and allows them to shirk their responsibility.

PPP continues to be troubling in other ways as well. It was intended to assist businesses impacted by the pandemic, but often it benefits well-funded and well-connected nonprofits. In New York City, millions in government loans, some of which are forgivable, flowed to entities such as the Philharmonic, the Vivian Beaumont Theater, and the School of American Ballet.

Left unsaid in all this is the fact that quarterly charitable giving actually rose by 2 percent in 2020, compared with the year prior. Private individuals and businesses are generously contributing to nonprofits that are aligned with their own objectives and personal beliefs.

Extensive fraud in PPP continues to stretch law enforcement. A few noteworthy investigations include a Brooklyn individual who took $2 million in loans by claiming to employ 50 people, and then spent the proceeds on luxury items. The same instance occurred in the San Fernando Valley with a fraud ring using $18 million in PPP proceeds to do the same.

Small businesses are actually being serviced by the credit markets. It is a misnomer that credit markets are not providing sufficient funds. Most small businesses are saying they are generally not looking for more credit. Only 3 percent of respondents in a recent NFIB survey reported that borrowing needs are not satisfied. Small business credit conditions in December, based on the percentage that are reporting easier lending conditions versus harder, were identical to conditions one year prior. Obtaining financing is the reported top concern of just 1 percent of small businesses owners.

What we know is that the reopening economy is what is saving small businesses. Real economic recovery does not stem from stimulus checks or bailouts, and it does not stem from PPP. It is largely a result of individuals and businesses at last being allowed to legally interact with each other. The historic rebound of the summer proves that those who were properly informed of the actual risks of the virus are enthusiastically participating in the reopening. Nationally, economic growth in the third quarter smashed all records, even as government transfer payments declined by 20 percent.

The bottom line is that the pace of the recovery varies according to lockdown restrictions. The Federal Reserve State Coincident Index estimates State GDP, and it illustrates how variant this recovery is. At the end of 2020, economic output in eight states was actually larger than the year prior, states such as Georgia and Utah, which did not endure crushing, long-lasting shutdowns. Meanwhile, places like Hawaii, Michigan, Rhode Island, and Massachusetts are 10 percent smaller than they were before.

The same can be said for unemployment rates. A number of states have unemployment of 4 percent or less. These are states that have reopened. Meanwhile, states like Connecticut, Nevada, New Mexico, New Jersey have unemployment rates nearly twice the rates in those states that have reopened.

Businesses across parts of the Nation certainly face economic hardship as a result of the myriad COVID–19 restrictions that are still in place in some local governments. Resolution requires governors and mayors to permit people to once again freely create, work, shop, and engage. The misery, economic misery, persistent across portions of the Nation should not be used by Congress as an excuse to further expand government control over the financial system and credit allocation. Any additional Federal relief measures should provide legal protections for businesses to reopen and tailor any additional aid to meet the health crisis.

Thank you for having me today.

[The prepared statement of Mr. Griffith follows:]

The Heritage Foundation

CONGRESSIONAL TESTIMONY

Testimony before the

Committee on Small Business and Entrepreneurship

U.S. Senate

March 17, 2021

Joel Griffith
Research Fellow in Financial Regulations
The Heritage Foundation

Thankyou Chairman Cardin, Ranking Member Paul, and other members of the committee for the opportunity to testify today. My name is Joel Griffith. I am a Research Fellow in Financial Regulations at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

This testimony will provide an overview of the economic calamity stemming from the COVID-19 shutdowns, the varied strength of the economic recovery from state to state, small business conditions, and the Paycheck Protection Program (PPP). This legislation provides for billions more of federal loans and grants despite the fact that billions of previously approved aid remains available. Some of these funds will flow to a program—the State Small Business Credit Initiative—with a history of problems. This federal aid crowds out private sector investment and ignores the fact that small businesses by and large do not report a drying up of credit. Re-opening the economy is the best relief for small businesses, as evidenced by the divergent economic results from state to state.

The data certainly bear out the economic decline stemmed from government-mandated closures and people responding to what they heard from some public health officials.

For the first time in our nation's history, governments intentionally suppressed the supply of goods and services. Likewise, restrictions on consumer activity artificially suppressed demand. An historic plunge in the production of goods, provision of services, and private investment resulted in the second quarter of 2020.[1]

The robust recovery of the third quarter and the much slower growth in the fourth quarter closed more than two-thirds of the sharp

[1] The nation's economy in the second quarter of 2020 shrank at a 31.4% annualized rate. Personal consumption dropped at a 33.2% annualized rate. Consumption of personal services dropped 41.8% annualized. Table 1.1.1, Bureau of Economic Analysis, https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=survey (accessed February 24, 2021). By the middle of 2020, the economy had contracted by 10.2% from its peak. Federal Reserve Bank of St. Louis, Series GDP, https://fred.stlouisfed.org/series/GDP (accessed February 24, 2021).

economic contraction. But much damage remains, with 9.9 million fewer individuals employed [2] and hundreds of thousands of businesses closed forever, including more than 100,000 restaurants.[3]

It's not for want of government spending that the economy still has not fully recovered. The federal government borrowed, printed, and spent trillions of dollars in an effort to cushion the economic downturn. Total federal spending of $6.551 trillion in fiscal year 2020 exceeded the prior year by $2.1 trillion,[4] an enormous increase of more than $24,000 per family of four.[5]

Rather, government-mandated closures and public perception of the crisis continue to deter investment and suppress economic activity. The skyrocketing federal debt and rapidly expanding central bank balance sheet creates the additional risk of a monetary crisis.

The Paycheck Protection Program (PPP) has been Inefficient, Untargeted, and Ineffective. In the weeks immediately following the onset of the pandemic, some federal government aid to businesses and employees potentially impacted by shutdown orders and precautionary measures was justifiable.

The small-business loan program has been ineffective at boosting employment. Three initial assessments of PPP found that the program cost between $109,000 and $380,000 per job saved, job which paid on average $45,000 prior to the restrictions instituted by governors and mayors.[6]

On the other hand, the economic resurgence in Q3 of 2020 even as PPP payments declined underscores how reopening can repair economic damage.

Unemployment rates and business conditions vary wildly across the nation dependent largely on the restrictions some governors and mayors continue to impose on society. State and local policymakers oversee decisions that affect businesses' abilities to operate, and they should assume the potential costs of new and ongoing business, school, and other closures they impose. States with the most restrictive economic policies are those that are suffering the largest business and employment losses.

Federal taxpayers should not continue to subsidize state and local decisions to shutter businesses and ruin livelihoods. Renewing the PPP program moves the costs of overly restrictive shutdowns to federal taxpayers and allows governors additional latitude to keep society shuttered with one-size-fits-all policies. Targeted, temporary, and local economic restrictions may be necessary, but those decisions, and the costs that they incur, should be weighed by the responsible policymakers.[7] PPP incentivizes state and local policymakers

[2] Federal Reserve Bank of St. Louis, Series PAYEMS, https://fred.stlouisfed.org/series/PAYEMS (accessed February 24, 2021).
[3] "Restaurant Industry in Free Fall; 10,000 Close in Three Months," National Restaurant Association, December 7, 2020, https://restaurant.org/news/pressroom/press-releases/restaurant-industry-in-free-fall-10000-close-in (accessed February 24, 2021).
[4] Congressional Budget Office, "Historical Budget Data," February 11, 2021, https://www.cbo.gov/system/files/2021-02/51134-2021-02-11-historicalbudgetdata.xlsx (accessed February 24, 2021).
[5] State and local governments increased spending by 15.4% from 2015-2020 and in the depths of the recession in Q2 of 2020 actually spent 1.2% more than the prior year. Federal Reserve Bank of St. Louis, Series SLEXPND, https://fred.stlouisfed.org/series/SLEXPND (accessed February 23, 2021).
[6] Raj Chetty et al., "The Economic Impacts of COVID-19: Evidence From a New Public Database Built Using Private Sector Data," National Bureau of Economic Research Working Paper No. 27431, November 2020, https://www.nber.org/system/files/working_papers/w27431/w27431.pdf (accessed December 3, 2020); João Granja et al., "Did the Paycheck Protection Program Hit the Target?" Becker Friedman Institute for Economics at UChicago, November 2020, https://bfi.uchicago.edu/wp-content/uploads/BFI_WP_202052_Revised.pdf (accessed December 3, 2020); David Autor et al., "An Evaluation of the Paycheck Protection Program Using Administrative Payroll Microdata," MIT Working Paper, July 2020, https://economics.mit.edu/files/20094 (accessed December 3, 2020).
[7] Ditch et al., "Bipartisan Senate COVID-19 Package Should do More to combat COVID-19, Remove Wasteful Spending," The Heritage Foundation, December 14, 2020, https://www.heritage.org/budget-and-spending/report/bipartisan-senate-covid-19-package-should-do-more-combat-covid-19-remove (accessed March 15, 2021).

to continue destructive shutdowns and allows them to shirk responsibility.

PPP Continues to Flow in Other Troubling Ways. PPP was intended to assist businesses impacted by the pandemic. Often, it benefits well-funded and well-connected non-profits.

For instance, PPP funneled federal aid to Oprah-connected charities.[8] More than $80 million in PPP funds flowed to dozens of Planned Parenthood affiliates in 2020.[9] In New York City, millions in government loans—some of which may be forgivable-- flowed to entities such as the Philharmonic-Symphony of New York, The Vivian Beaumont Theatre, and School of American Ballet.[10]

Left unsaid is the fact that quarterly charitable giving actually rose by 2% in 2020 compared with the year prior.[11] Private individuals and businesses are generously contributing to the no-profits aligned with their objectives and personal beliefs. Some on are attempting to waive affiliate limitations for PPP for non-profits. This really is an attempt to use the crisis as a mechanism for transferring hundreds of millions of dollars to politically favored entities.

Extensive PPP Fraud Continues to Stretch Law Enforcement. A few noteworthy investigations include a Brooklyn individual accused of obtaining a $1.9 million PPP loan by claiming to employ 50 people—and then using the proceeds to purchase multiple luxury vehicles.[12] The Department of Justice is investigating an alleged fraud ring in San Fernando Valley of using $18 million in PPP proceeds to purchase "gold coins, diamonds, jewelry, luxury watches, fine imported furnishings, designer handbags and clothing, cryptocurrency, and securities."[13] Six individuals in Georgia and South Carolina are charged with working together to fraudulently obtaining $1.5 million in PPP loans.[14]

Congressionally Approved PPP Remains Unused. Congress has already approved more than $1 trillion in aid intended for smaller businesses, including more than $800 billion through the Paycheck Protection Program (PPP).

Much of this aid is still available. Of the additional $284 billion provided for PPP in the December stimulus package to be disbursed through March, only 36% had been obligated as of February 7.[15] Likewise, the December package provided $12 billion to Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) to lend.

[8] Adam Andrzejewski, "Oprah Connected Charities Took Almost 300k in Federal Paycheck Protection Program," Forbes, March 12, 2021, https://www.forbes.com/sites/adamandrzejewski/2021/03/12/oprah-connected-charities-took-almost-300k-in-federal-paycheck-protection-program-ppp-funding/amp/ (accessed March 15, 2021).

[9] Planned Parenthood, "Annual Report 2019–2020," https://www.plannedparenthood.org/uploads/filer_public/67/30/67305ea1-8da2-4cee-9191-19228c1d6f70/210219-annual-report-2019-2020-web-final.pdf (accessed February 19, 2021).

[10] Open the Books, SBA Paycheck Protection Program Loans Over $1M, https://www.openthebooks.com/maps/?Map=90022&MapType=Pin (accessed March 15, 2021).

[11] https://institute.blackbaud.com/the-blackbaud-institute-index/#:~:text=5.3%25-,In%202020%2C%20overall%20charitable%20giving%20in%20the%20United%20States%20increased,Charitable%20Giving%20Report%20for%20more.

[12] Brooklyn Man Arrested for $1.9 Million Paycheck Protection Program Fraud, United States Department of Justice, December 21, 2020 https://www.justice.gov/usao-edny/pr/brooklyn-man-arrested-19-million-paycheck-protection-program-fraud (accessed March 15, 2021).

[13] 3 Additional Members of Alleged Fraud Ring Based in San Fernando Valley Arrested on Charges of Exploiting COVID-Relief Programs, United States Department of Justice, March 12, 2021, https://www.justice.gov/usao-cdca/pr/3-additional-members-alleged-fraud-ring-based-san-fernando-valley-arrested-charges (accessed March 15, 2021).

[14] Six Charged in Connection with a $3 Million Paycheck Protection Program Fraud Scheme, United States Department of Justice, January 28, 2021, https://www.justice.gov/opa/pr/six-charged-connection-3-million-paycheck-protection-program-fraud-scheme (accessed March 15, 2021).

[15] U.S. Small Business Administration, "Paycheck Protection Program (PPP) Report: Approvals through 2/15/2021," https://www.sba.gov/sites/default/files/2021-02/PPP_Report_Public_210215-508.pdf (accessed February 24, 2021).

The American Rescue Plan Act provided $15 billion more for the Targeted Economic Injury Disaster Loan Program even though as of February 12, none of the $20 billion appropriated for Economic Injury Disaster Loans had been obligated.[16] The Act also included another $7.25 billion for PPP.

Small Businesses are Being Serviced by the Credit Markets. It's a misnomer that credit markets are not providing funds to small businesses. Most small businesses are saying they are generally not looking for more credit.[17] Only three percent of respondents in a recent National Federation of Independent Business (NFIB) survey reported their borrowing needs were not satisfied. The survey also reported the following; "Twenty-six percent reported all credit needs met (up 1 point) and 60 percent said they were not interested in a loan (up 2 points). A net 3 percent reported their last loan was harder to get than in previous attempts (up 1 point)."[18] Small business credit conditions in December—based on the percentage of businesses reporting "easier" lending conditions vs. "harder" lending conditions—were identical to conditions one year prior, months before any COVID-19 impact began.[19]

This stands in stark contrast to the Great Recession more than a decade ago where credit conditions according to the same index plunged, taking years to recover to their pre-recession levels.[20] In fact, obtaining financing is the reported top concern of just 1 percent of small business owners.[21] In past economic crises, 37 percent have reported financing and interest rates as a top concern.

More Federal Government Lending to Businesses Crowds out the Private Sector. Our credit markets serve an important function of efficiently allocating resources across the economy. Usually, businesses and projects must compete with each other to obtain limited amounts of capital in order to secure the resources needed to function. Interest rates or return on equity serve as important price signals---and also determine which businesses ultimately will obtain the capital. The flow of capital from the federal government to private businesses alters this equation. By delivering capital at sub-market interest rates or sometimes in the form of outright grants, businesses which otherwise may not secure funding in a competitive environment from an investor find it possible to obtain capital—and to continue consuming limited resources.

The Small Business Administration (SBA) loan guarantees now secure more than 50% of all outstanding loan balances as of Q3 2020—up from less than 10% at the beginning of 2020.[22]

Reopening the Economy is Saving Small Businesses. Full economic recovery does not stem from stimulus checks or bailouts from Washington. Rather, it's largely a result of individuals and businesses safely and legally interacting with others. The historic economic rebound this summer proves that those properly informed of the actual risks of the virus and the appropriate mitigation measures are enthusiastically participating in this reopening.

Nationally, economic growth in last year's third quarter smashed all prior records — growing at a stunning 33.4% annual

[16] U.S. Small Business Administration, "COVID-19 EIDL Loans Report 2021," February 16, 2021, https://www.sba.gov/document/report-covid-19-eidl-loans-report-2021 (accessed February 24, 2021).
[17] William C. Dunkelberg and Holly Wade, NFIB Small Business Economic Trends, NFIB Research Center, December 2020, https://assets.nfib.com/nfibcom/SBET-Dec-2020.pdf (accessed February 23, 2021).
[18] Ibid.
[19] Ibid.
[20] Ibid.
[21] Ibid.
[22] Federal Reserve Bank of Kansas City, "kcFed Small Business Lending Survey," Chart 2, December 21, 2020, https://www.kansascityfed.org/~/media/files/publicat/research/indicatorsdata/smallbusiness/2020/small%20business%20lending%20survey%20template%203rd%20quarter%20-%2012212020v2.pdf?la=en (accessed February 24, 2021).

pace.[23] Record growth occurred even as government transfer payments and Paycheck Protection Program expenditures dropped by 20% in the quarter.[24]

The pace of the recovery varies widely across the nation due to lockdown restrictions—ostensibly implemented to contain the spread of the virus.

The Federal Reserve State Coincident Indexes—an approximation of state GDP—vividly illustrates how variant the economic recovery is based on states.[25] This index suggests economic output at the end of 2020 was actually greater than pre-pandemic in Utah, Missouri, Idaho, Nebraska, Alaska, South Dakota, Mississippi, and Georgia—notably states without crushing, long-lasting shutdowns. The economies in Hawaii, Michigan, Rhode Island, Massachusetts all remain more than 10% smaller. Meanwhile, states like New York, Hawaii, and Illinois remain mired in severe recessions. Only this month did Gov. Andrew Cuomo (D-NY) and Chicago Mayor Lori Lightfoot (D-IL) admit that their shutdowns of the service sectors may need to be relaxed.

In El Centro, California, 17.7% are unemployed, Los Angeles suffers from 9.9% unemployment. Across New York City, draconian restrictions and an army of compliance officers continue to push tens of thousands of businesses out of business, resulting in 8.4% unemployment.[26]

Meanwhile, unemployment in numerous communities in Alabama, Idaho, Iowa, Nebraska, South Dakota, and Utah is at 3% or less. The statewide unemployment rate of under 4% in Alabama, Iowa, Kansas, Nebraska, South Dakota, Utah, and Vermont contrasts sharply with rates at least twice as high in California, Colorado, Connecticut, Hawaii, Illinois, Nevada, New York, and Rhode Island.[27] Overall, in December, the 10 states with the fewest restrictions in place[28] averaged 4.7 percent unemployment—while the 10 states with the most restrictions averaged 7.1 percent unemployment.[29]

Conclusion:

Businesses across parts of the nation face economic hardship as a result of the myriad of COVID-19 restrictions enacted by state and local governments. Resolution requires governors and mayors to permit people once again to freely create, work, shop, and engage.

The economic misery persistent across portions of the nation should not be used an excuse to further expand government control over the financial system and credit allocation.

Any additional federal relief measures should provide legal protections for businesses to reopen and tailor aid to meet the health crisis.[30]

[23] U.S. Bureau of Economic Analysis, National Economic Accounts, Table 1, January 28, 2021, https://www.bea.gov/sites/default/files/2021-01/gdp4q20_adv.xlsx (accessed February 16, 2021).
[24] U.S. Bureau of Economic Analysis, Effects of Selected Federal Pandemic Response Programs on Personal Income, https://www.bea.gov/sites/default/files/2020-10/effects-of-selected-federal-pandemic-response-programs-on-personal-income-2020q3-adv.xlsx (accessed February 16, 2021).
[25] Federal Reserve Bank of Philadelphia, State Coincident Indexes, https://www.philadelphiafed.org/-/media/frbp/assets/surveys-and-data/coincident/coincident-revised.xls (accessed February 16, 2021).
[26]U.S. Bureau of Labor Statistics, Unemployment Rates for Metropolitan Areas, preliminary for December 2020, https://www.bls.gov/web/metro/laummtrk.htm (accessed February 23, 2021).
[27] U.S. Bureau of Labor Statistics, Unemployment Rates for Metropolitan Areas, preliminary for December 2020, https://www.bls.gov/web/metro/laummtrk.htm (accessed February 23, 2021).
[28]Adam McCann, "States with the Fewest Coronavirus Restrictions," WalletHub, January 26, 2021, https://wallethub.com/edu/states-coronavirus-restrictions/73818 (accessed February 4, 2021).
[29]U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics Data Series, December 2020, https://www.bls.gov/web/laus/laumstrk.htm (accessed February 4, 2021).
[30] The Heritage Foundation's Coronavirus Commission articulates specific measures Congress can take, including the following: partnering with key strategic allies in Western Europe and the Indo-Pacific, removing barriers to free trade while simultaneously protecting intellectual property rights, and transitioning the temporary waivers and emergency exceptions in numerous sectors into

A full recovery requires a reopening rather than more fiat currency, borrowing, and government spending programs. Only then will we see both investment and consumption return in full force. Businesses don't need government largesse. And workers do not need more government mandates. What our nation needs is a continued reopening.

permanent regulatory reformSee *Saving Lives and Livelihoods; Recommendations for Recovery*, National Coronavirus Recovery Commission, a project of The Heritage Foundation, June 10, 2020, http://thf_media.s3.amazonaws.com/2020/NCRC_FINAL.pdf (accessed March 9, 2021).

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Chairman CARDIN. Thank you, Mr. Griffith. I appreciate your testimony.

We will now go by Webex to John Hoey, who is the President and CEO of the YMCA of Central Maryland. Prior to the Y, John worked in the private sector across four different industries while also volunteering his time in the community. John has been recognized for his leadership on many occasions, including as an Ernst & Young Entrepreneur of the Year and one of the Maryland Innovators of the Year.

Mr. HOEY.

STATEMENT OF JOHN K. HOEY, PRESIDENT AND CEO, THE Y IN CENTRAL MARYLAND, BALTIMORE, MD

Mr. HOEY. Thank you, Chairman Cardin, Ranking Member Paul, and the Committee for inviting me today to talk about an incredibly important issue that has been little understood or discussed since the COVID pandemic hit early last year. Let me first start by thanking, in particular, Committee Chair Senator Cardin of Maryland for his steadfast focus on ensuring that the American Rescue Plan Act of 2021 included long overdue relief for large nonprofits, which have been, for some reason, shut out from all of the previous relief packages, and in many cases have been pushed to the brink of bankruptcy while doing some of the most important, essential work to support those most in distress during these past 12 months.

I have the privilege of being the CEO of the Y in Central Maryland, one of the largest and longest-operating community service organizations in the greater Baltimore region. We are also one of the largest YMCAs in the country. Prior to COVID, our organization served over 300,000 central Marylanders through a wide variety of programs and services that focus on healthy living, youth development, and social responsibility.

While the Y may be best known for our large buildings that bring individuals, families, and communities together, we are also our region's largest early childhood and Head Start provider, the largest provider of after-school enrichment, mentoring, summer camp, and community school programming. In short, we are the largest youth-serving organization in the region and have a profound impact on the well-being of young people and their families. What you should also know is that we were one of the largest employers in our region, with over 2,700 people on our payroll.

As someone who worked in the private sector before being recruited to do this work in 2006, I appreciate the incredible uniqueness and strength of the Y's overall business model. Over 70 percent of our revenue, prior to COVID, came through "earned revenue," meaning the membership and program fees that people pay us to participate in the Y's programs and services. The remainder of our revenue comes from Federal and private grants and donations. The diversity of our business model allows us to operate at scale and to be in the unique position to connect people and families across the economic and social spectrum to opportunities that smaller organizations focused on only one thing or one small community could not imagine doing.

In other words, scale matters, and at the Y we leverage that scale for the good of our community in more ways than I have time to describe here.

Unfortunately, when COVID hit and we were forced to close most of our programs and buildings we operate, our scale and earned revenue model worked against us. As we have now lost 50 percent of our members, shuttered most of our school-based operations, and had to run through a dizzying array of local and state requirements that changed sometimes daily, we also became the State of Maryland's and local municipalities' go-to organization to quickly spin up a wide range of services for thousands of people who were most deeply impacted by COVID.

For example, the state's behest, we quickly opened 15 Y sites to care for over 800 children of essential workers so their parents could care for others. Partnering with food banks and others, we launched a massive food distribution operation, with over 500,000 meals distributed to date. We made thousands of "care calls" to seniors who are members of ours and others at risk for isolation during the shutdown.

We were able to keep our over 1,000 Y Head Start families and children learning and well supported through virtual learning and family engagement. We quickly pivoted our mentoring work for over 600 youth to a virtual format, to ensure that those young people still had a caring adult to interact with. With schools closed and parents in need, we opened 20 Y Academic Support Centers to provide safe, in-person school support to help children and parents successfully navigate virtual learning.

We did all this while having to eliminate over 1,000 of our 2,700 jobs at all levels of the organization, cutting salaries for all Y managers, and burning all of our available cash in the bank.

We did all of this because that is who we are and what our community expects us to be, but we did it despite being shut out of the PPP program. While so many worthy small non-profits received PPP funds, even though their fundamental business model was unaffected by the pandemic, we were left to almost bleed out for the "sin" of having over 500 employees and the audacity to operate at scale across the region. Our operating revenue for 2020, expected to be around $92 million, was down over $20 million last year, and is projected to be down $25 million from that number this year. We have spent all of the cash we previously had on our balance sheet and we are now using our line of credit to fund operations.

After 167 years of serving this community, it is really hard to understand why Congress failed to help us until the American Rescue Plan Act was passed just last week. On behalf of the Y and this community, I am deeply appreciative that the President made this legislation his first priority, and that enough Senators understood the essential role that larger non-profits play in this country.

For our Y, we anticipate that we will be eligible for around $8 to $9 million from the Payroll Protection Program. That means that we will likely not have to go any further into our line of credit to fund operating losses this year, as we ramp back up to hopefully being cash flow positive again by year-end.

I am concerned, however, that the deadline for accessing the program remains March 31st. After being shut out for the past year, it is unreasonable to ask organizations that were heretofore ineligible for the program to file their applications within two weeks. I can also tell you that the banks that we are talking to right now have told us that the SBA will not have processes in place for large nonprofits to apply for PPP for at least two weeks. So we are looking at potentially getting shut out yet again. I think a three-month extension is not only warranted, but owed to all of us after what we have been through this past year.

Thank you again for the opportunity to speak to you today, and thank you to Senator Cardin and those who understood how critically important large nonprofits are to their communities and to helping our country survive this past year.

[The prepared statement of Mr. Hoey follows:]

Testimony to the United States Senate on Small Business and Entrepreneurship
John K. Hoey
President and CEO
The Y in Central Maryland

Thank you for inviting me to testify at today's hearing on an incredibly important issue that has been little understood or discussed since the COVID pandemic hit early last year. Let me first start by thanking Committee Chair Senator Ben Cardin of Maryland for his steadfast focus on ensuring that the American Rescue Plan Act of 2021 included long overdue relief for large non-profits, which have been for some reason shut out from all of the previous relief packages, and in many cases have been pushed to the brink of bankruptcy while doing some of the most important, essential work to support those most in distress during this past twelve months.

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In other words, scale matters, and at the Y we leverage that scale for the good of our community in more ways than I have time to describe here.

Unfortunately, when COVID hit, and we were forced to close most of our programs and buildings, our scale and earned revenue model worked against us. As we have lost 50% of our members, shuttered most of our school-based operations, and had to run through a dizzying array of local and state requirements that changed sometimes daily, we also became the State of Maryland's and local municipalities' go-to organization to quickly spin up a wide range of new services for thousands of people who were most deeply impacted by COVID. For example:

- At the state's behest, we quickly opened 15 Y sites to care for over 800 children of essential workers so their parents could care for others.
- Partnering with food banks and others, we launched a massive food distribution operation, with over 500,000 meals distributed by Y associates and volunteers the past 12 months.
- We made thousands of "care calls" to senior members and others at risk for isolation during the shutdown.
- We were able to keep our over 1,000 Y Head Start families and children learning and well supported through virtual learning and family engagement
- We quickly pivoted our mentoring work for over 600 youth to a virtual format, ensuring that they kept contact with a caring adult in a time of incredible confusion and isolation
- With schools closed and parents in need, we opened 20 Y Academic Support Centers to provide safe, in-person school support to help children and parents successfully navigate virtual learning.

We did all this while having to eliminate over 1,000 of our 2,700 jobs at all levels of the organization, cutting salaries for all Y managers, and burning all of our available cash in the bank.

We did all of this because that's who we are and what our community expects us to be, but we did it despite being shut out of the PPP program. While so many worthy small non-profits received PPP funds even though their fundamental business model was unaffected by the pandemic, we were left to almost bleed out for the "sin" of having over 500 employees and the audacity to operate at scale across the region. Our operating revenue for 2020, expected to be around $92M, was down over $20M last year, and is projected to be down $25M from that number this year. We have spent all of the cash we previously had on our balance sheet and are now using our line of credit to fund operations. After 167 years of serving this community, it's hard to understand why Congress failed to help us until the American Rescue Plan Act was passed just last week. On behalf of the Y and this community, I am deeply appreciative that the President made this legislation his first priority, and that enough Senators understood the essential role that larger non-profits play in this country.

For our Y, we anticipate that we will be eligible for around $8 to $9M from the Payroll Protection Program. That means that we will not have to go much further into our line of credit to fund operating losses this year, as we ramp back up to hopefully being cash flow positive again by year-end. I am concerned, however, that the deadline for accessing the program remains March 31st. After being shut out for the past year, it is unreasonable to ask organizations that were heretofore ineligible for the program to file their applications within two weeks. I can tell you that colleagues of mine who run large Ys around the country and large non-profits in Baltimore are still trying to understand the program and figure out if they qualify. I think a three month extension is not only warranted, but owed to all of us after what we've been through this past year.

Thank you again for the opportunity to speak to you today, and thank you to Senator Cardin and those who understood how critically important large non-profits are to their communities and to helping our country survive this past year.

Chairman CARDIN. Thank you, Mr. Hoey. We will now go to our fourth witness, who is here in person, Brad Polumbo, who is a journalist and opinion editor at the Foundation for Economic Education. He was previously a media and journalist fellow at the Washington Examiner, and an editor at the media nonprofit, Young Voices.

Mr. POLUMBO.

STATEMENT OF BRAD POLUMBO, EDITOR, FOUNDATION FOR ECONOMIC EDUCATION, ARLINGTON, VA

Mr. POLUMBO. Chairman, Ranking Member Paul, members of the Committee, thank you for the opportunity to testify here today. I am an editor at the Foundation for Economic Education, where I conduct policy reporting and analysis, and I have been doing this for several years now, but this week was the first time that tears flooded my eyes when I reported a story.

I was reporting an interview that the Associated Press did with doctors across the globe, warning that lockdown orders are leading to an international epidemic in child suicide.

"We are very surprised by the intensity of the desire to die among children who may be 12 or 13 years old," a French doctor said. "We sometimes have children of 9 who already want to die. It is a genuine wish to end their lives," this doctor told the AP. And he told the AP that the number of youth suicide attempts his hospital sees in a month has more than doubled amid pandemic restrictions.

Here in the U.S., the Centers for Disease Control reported that 25 percent of young adults considered suicide during the COVID lockdowns, while overall mental health issues appear to have spiked as well. CDC data show a 24 percent increase in emergency room mental health visits for children ages 5 to 11, compared to 2019. Among adolescents aged 12 to 17, that increase is 31 percent.

The spike in depression and suicidality triggered by the social isolation of pandemic lockdowns is most certainly not what proponents of the restrictions intended. But as Henry Hazlitt wrote in *Economics in One Lesson*, responsible policymaking requires us to look beyond intentions and immediate effects. It means taking into account a policy's indirect consequences and its collateral damage. And sweeping government interventions tend to be plagued by unintended consequences, sometimes lethal ones.

There has been perhaps no more dramatic example of this lethality than the unintended consequences of pandemic lockdowns. Government officials took drastic, unprecedented steps of closing businesses en masse, criminalizing citizens' livelihoods, and essentially placing healthy Americans under a form of house arrest. The lockdowns and restrictions have been normalized, but they are not normal.

My colleagues and I at the Foundation for Economic Education have spent the last year chronicling the myriad ways that COVID lockdowns have led to unintended consequences. The aforementioned mental health crisis is only one of many that have emerged as a result of these unprecedented government restrictions. We have also seen an enormous uptick in addiction and drug overdoses. According to the CDC, over 81,000 drug overdose deaths occurred in the United States in the 12 months ending in May 2020. That is the highest number of overdose deaths ever recorded in a 12-month period.

Now the full data will take years to analyze, but state and local level examples of this tragic trend are too numerous to list. Meanwhile, an analysis from the National Commission on COVID–19 and Criminal Justice found that domestic violence spiked 8.1 percent after lockdowns. The study's author said that this figure is, if anything, "a floor, not a ceiling." It is an underestimate.

None of this even touches on the economic devastation wrought by government pandemic lockdowns. According to the business website Yelp, 60 percent of the 163,735 businesses that used the website which have closed will never reopen. Small businesses, in particular, have been hit hardest by COVID pandemic lockdowns. More than 100,000 small businesses permanently shuttered last year, while polling shows that 60 percent of small business owners worry that their business will not survive until June 2021.

From mental health to drug overdoses to domestic violence, the immeasurable economic and social damage that lockdowns have wrought cannot be made whole by any amount of welfare, by any amount of stimulus payments, or by any amount business grants. Lockdowns and continued pandemic restrictions are what is crushing the American spirit and the American economy. Neither the Paycheck Protection Program nor other fraud-rife and inefficient Federal band-aids can heal this ailment.

Policymakers who continue to perpetuate lockdown policies and heavy-handed pandemic restrictions must discover the humility necessary to see that their sweeping actions have consequences beyond their control, beyond their understanding, and beyond their intentions. Until they do, millions of Americans will continue to suffer silently. Thank you.

[The prepared statement of Mr. Polumbo follows:]

Opening Statement: The Life-Threatening Unintended Consequences of Pandemic Lockdowns

Brad Polumbo
Editor at the Foundation for Economic Education

It's not often that I break down in tears while reporting on a story. But that's exactly what happened on Monday when I covered a series of interviews with doctors across the globe warning that COVID-19 lockdown orders are leading to an "international epidemic" of child suicide.

"We are very surprised by the intensity of the desire to die among children who may be 12 or 13 years old," a French doctor said. "We sometimes have children of 9 who already want to die. And it's not simply a provocation or a blackmail via suicide. It is a genuine wish to end their lives."

The number of youth suicide attempts his hospital sees in a month has more than doubled amid pandemic restrictions.

Here in the US, the Centers for Disease Control reported that 25 percent of young adults considered suicide during the lockdowns, while overall mental health issues appear to have spiked as well. CDC data show a 24 percent increase in emergency room mental health visits for children ages 5 to 11, compared to 2019. Among adolescents aged 12 to 17, that increase is 31 percent.

The spike in depression and suicidality triggered by the social isolation of pandemic lockdowns is certainly not what proponents of the restrictions intended. They simply want, as we all do, to stop the spread of COVID-19 and bring the pandemic to an end. But as Henry Hazlitt explained in his book *Economics in One Lesson*, responsible policymaking means looking beyond intentions and immediate effects. It means taking into account a policy's indirect consequences and its collateral damage. And sweeping government interventions tend to be plagued by unintended consequences: sometimes lethal ones.

There has been perhaps no more dramatic example of this lethality than the unintended consequences of pandemic lockdowns. Government officials took drastic, unprecedented steps of closing businesses en masse, criminalizing citizens' livelihoods, and essentially placing healthy Americans under a form of house arrest. The lockdowns and restrictions have been normalized, but they are not normal. My colleagues and I at the Foundation for Economic Education have chronicled over the last year how these attempts to address a public health crisis have generated their own crises and have likely done more harm than good.

The aforementioned mental health crisis is only one of many that have emerged as a result of these unprecedented government restrictions. We have also seen an enormous uptick in addiction and drug overdoses. According to the CDC, "Over 81,000 drug overdose deaths occurred in the United States in the 12 months ending in May 2020, the highest number of overdose deaths ever recorded in a 12-month period."

Full data will take years to analyze, but state-and-local level examples of this tragic trend are too numerous to list.

For instance, the *Boston Globe* reported that Maine overdose deaths "climbed nearly one-third in 2020 to set a record." In the summer of 2020, a coroner in Ohio told the *Washington Post* their office ran out of wheeled carts to put the bodies of overdose victims in.

Meanwhile, an analysis from the National Commission on COVID-19 and Criminal Justice found that domestic violence spiked 8.1% after lockdowns were imposed. The study's author said that this figure is, if anything, an underestimate—"a floor, not a ceiling."

None of this even touches on the economic devastation pandemic lockdowns have wrought. According to the business website Yelp, 60% of the 163,735 businesses that closed between March 1st and August 31 of 2020 will never reopen.

Small businesses, in particular, have suffered. More than 100,000 small businesses permanently shuttered last year amid pandemic lockdowns and riots, while polling shows that 60 percent of small business owners worry they won't make it through June 2021.

From mental health to drug overdoses to domestic violence, the immeasurable economic and social damage lockdowns have wrought cannot be made whole by any amount of welfare, stimulus payments, or business grants. Lockdowns and continued pandemic restrictions are what's crushing the American economy and the American spirit.

Neither the Paycheck Protection Program nor other fraud-rife and inefficient federal band-aids can heal the gaping wound lockdowns have carved in our economy.

Policymakers who continue to perpetuate lockdown policies and heavy pandemic restrictions must discover the humility necessary to see that their sweeping actions have consequences beyond their control, understanding, and intentions. Until they do, millions of Americans will continue to suffer silently as they bear the unintended consequences.

Chairman CARDIN. Thank you very much for your testimony. We will now go to five-minute rounds for questioning.

Mr. Hoey, let me start, if I might, with you. You point out the challenges that you have in navigating the program, that you were not eligible, now you are eligible. Let me make it even a little bit more complicated for you. The law requires you not only to file an application by the end of the month, you have to have it acted on by the end of the month by the SBA, so it makes it even more challenging. And as you know, there are certain requirements that have to be verified, under certain order process, before a forgivable loan can be approved.

I also want to underscore the point on nonprofits and then give you a chance to sort of talk about how important it is to extend the program beyond the March date, and that is, according to Johns Hopkins University, which is really the premier organization for reliable statistics in regards to COVID–19, they have reported that the nonprofit employment number is down about 1 million as a result of COVID–19, just underscoring the point that you said, the financial challenges in the nonprofit sector.

So I know you are active within the nonprofit community. How critically important is it for nonprofits, but as well as other small businesses, the change in the standard for the self-employed to be able to calculate how much they are entitled to? How important is it for us to extend that date?

Mr. HOEY. I think it is essential. We are fortunate to have a really talented CFO, and we are doing our best. We also are reaching out to as many banks as we can. And I can tell you, I was just on a call this morning with colleagues of mine across the country, and the level of confusion, the different information being provided by different banks, which I do not think are intentional but there is just a level of confusion, given this bill was just passed last week. The SBA still is trying to set up its protocols for handling organizations which admittedly they do not typically administer programs for.

And at the end of the day, I am convinced that most worthy and large not-for-profits will get shut out yet again if the extension is not granted. I just do not think it is reasonable. You know, this, to me, should not be a partisan issue. It should simply be a practical issue of, you know, can you do something this quickly, within two weeks' time, that requires, you know, a bank and a Federal entity to coordinate? I do not really think so. I do not think so at all.

So I think it would be a grave mistake not to extend the period for 90 days. I think a lot of large nonprofits still do not even know they are eligible, quite frankly. That is another issue.

Chairman CARDIN. And we have got to get that information out. I understand that.

Ms. Mensah, let me turn to you, if I might in regards to how effective the targeting of funds, or walling off for the CDFIs or for the small of the small businesses. Do we have a structure in place that gives us a better chance of reaching the underserved community? We know there is a challenge to start off with, with lack of banking relations with a lot of the small businesses located in underserved communities, but have the changes that we have made in the program over this past year been helpful, and what additional changes do you think we need?

Ms. MENSAH. The changes were incredibly helpful, Senator Cardin. This was a powerful change. You listened to the CDFIs. You listened to the businesses in your communities. So the changes made sense. The changes are working.

What we must do is extend this deadline, and what you propose is a sensible extension, an extension to May 31st for the program and two months for the agencies and the lenders to do the back-office paperwork after that. That is the sensible change we need, and it will make a difference.

And if I can also say, this income calculation that you made a change, it is a very sensible one. But like what Mr. Hoey spoke to, we need retroactivity. It came very late. So we need to be able to capture more businesses, and there is precedent for this. Congress made a similar income calculation for PPP loans to ranchers and farmers, so we have done this before. We listen to our constituents and to our fellow Americans who are hurting.

So I simply urge you—you got it right. Let's give us time to make this work and heal these businesses and our economy.

Chairman CARDIN. Thank you. Senator Paul.

Senator PAUL. Mr. Polumbo, thank you for reminding us, you know, of the children who have suffered from these lockdowns. I agree with you. I do not think anybody intentionally wanted more children to kill themselves, to have more teenage suicide, but it is an unintended consequence and I think no one is really pushing back and saying it does not have something to do with the isolation kids are feeling from being at home and cooped up and not able to go to school.

It would be one thing if people could say, well, the locked saved a million lives. Instead, I think it is very hard to look at objective evidence that says the lockdowns have saved any lives. And this will be debated for some time to come, hopefully with less emotion and with more objectivity.

You mentioned Henry Hazlitt and the idea that responsible policymaking looks at immediate intentions but also at ultimate consequences, unintended consequences. Bastiat referred to this as sort of the seen and the unseen. It is very easy to see the PPP program. Someone gives you a whole bunch of money and you buy something or you keep your employees employed for three months and you see the seen. The unseen is what happens to so much debt and so much borrowing over time. Can you describe your opinion as to what will happen and what are the risks of borrowing $6 trillion over a two-year period?

Mr. POLUMBO. Yes, Senator Paul, and thank you for the question. I can speak to this as somebody who will be paying off this debt the rest of my life, in my 20s. We just have spent a total of $6 trillion, in total, on COVID relief, though according to PolitiFact, 90 percent of the last bill was not directly related to COVID–19. Now that money will hang over my generation the rest of our lives, and future generations in the form of decreased economic growth and opportunity, higher taxes every year just to meet the interest payments, and if interest rates go up anywhere close to historical norms, that will become an enormous expense on us.

So when we are talking about expensive programs, expensive government programs, we have to see clear proof that they have worked, if we are going to argue that they should be reiterated in future iterations. And when it comes to the Paycheck Protection Program and many of these other stimulus efforts, that evidence just simply is not there.

An MIT economist found that the Paycheck Protection Program only preserved roughly 2.3 million jobs in its first iteration. That came out to $224,000 in taxpayer expenditure per job preserved. That, for members of my generation who will be paying the consequences the rest of our lifetimes, is not a fair tradeoff.

Thomas Sowell said this, the famed economist. "There is only tradeoffs in policy."

Senator PAUL.

[Inaudible.] I do not know if you heard me because of my microphone. Mr. Griffith, do you hear me now?

[No response.]

Senator PAUL. All right. I will direct that question to Mr. Polumbo then. Of the trillion dollars that is still left in the pipeline, do you think we would be wiser to be looking at how that money can be spent and will be spent rather than adding another $2 trillion?

Mr. POLUMBO. Yes, it is disturbing to me that we are pouring more Federal money out the door like candy on Halloween before even eating what we have already doled out. I just find the way that this was done, in terms of sending money out, in response to an emergency it is understandable, but it was done with very minimal verification requirements, leading to enormous fraud problems.

Here is what The Wall Street Journal reported. "The Federal Government is swamped with reports of potential fraud in the Paycheck Protection Program. Evidence is growing that many took advantage of the program's open-door design. Banks the government allowed companies to self-certify that they needed the funds, with little vetting. A Federal watchdog within the Small Business Administration said there were strong indicators of widespread potential abuse and fraud. They have counted tens of thousands of companies that received PPP loans for which they appear to be have been ineligible," The Journal reports, "and tens of thousands of organizations also appear to have received more money than they should have, based on their head counts." And this is just one of the many COVID programs.

So we have already allocated so much money but we have not fixed the glaring problems with how it is being spent, so to me it is irresponsible that taxpayer resources go and send much more out the door.

Senator PAUL. Thank you.

Chairman CARDIN. Senator Cantwell.

Senator CANTWELL. Thank you, Mr. Chairman. You know, I find this last point interesting just because, you know, when the first PPP checks went out, during the Trump administration, there clearly were problems. And we did not hear too much about it other than people were concerned and that we should do something. And then when we were getting to the next round, which also was bipartisan, people heeded some of the problems and made some corrections. But it is not as if this problem is just now here.

And the other thing that we tried to is each round of PPP funding we have actually not done a good job of reaching some communities. So each time we have improved on the PPP program with changes to say that we are trying to reach those who just did not have a banker on speed dial. And when I think about putting small business dollars out the door, I am glad that we have made the effort, particularly on CDFIs, to make sure that—and listen, I know some people who actually had bankers on speed dial and still did not get PPP money.

So, look. This is an issue about getting access to capital, which is really the fundamental issue of this Committee overall, I think, is working with SBA and making continued improvements so access to capital reaches more people. Why? Because when women and minorities get access to capital, half of the population, they actually help build the economy for the future.

So I want to bring up Tribal communities, and this is for Ms. Mensah. Tribal and Native-owned small businesses continue to be on the underserved list. They face real challenges in getting COVID relief. The Biden administration, I believe, needs to focus on this, because they have been hard-hit by the pandemic. Lenders have denied Paycheck Protection Program loans to some Native-owned small businesses because they do not meet the SBA lending documentation requirements, that is, that Tribal businesses do not file a tax return because they do not have to, under their treaty rights, they do not have an employment identification number, and most are operating on cash basis and do not have the same kind of banking or internet systems.

Yet they are a part of our economy. Native businesses have been—we have 20 federally recognized Tribes in the State of Washington. They participate in treaty-right fisheries. The Lummi Nation alone, just one of our Tribes, has over 470 registered vessels that provide over 1,175 jobs in the fishing area. So this is very big, important businesses for us in the north part of our State.

So the Lummi CDFI was able to help a very limited number of Native fishermen get PPP loans, and my staff were told that a majority of Tribal fisherpeople and other Native business owners who applied on their own at local banks were either denied by the SBA PPP loans or did not have the technical support on their admissions.

So my question is to you, Ms. Mensah. The Recovery Act plan that was signed by President Biden last week contains $175 million for community navigator pilot programs to better reach underserved communities, including Tribal communities. The Native CDFIs, like the Lummi CDFI, have been essential. What should we be doing to make sure that the navigator pilot program reaches more of these businesses, and what resources do the CDFIs have to help with these lenders, to make sure that these Tribal records help to bridge the gap here?

Ms. MENSAH. Thank you, Senator Cantwell, for your question and for raising the issue of Native communities and Native CDFIs. There are 70 Native CDFIs. The Lummi CDFI that you mentioned is an OFN member, as is the Northwest Native Development Fund in Washington. They get up every morning to help their Native communities and these Native businesses.

You have come a long way already, and I praise the Committee and the administration for its inauguration of the community navigator program. We expect to see great things out of that program, but frankly, CDFIs have always played the navigator role. We are capital-plus. We always work with our communities. So strengthening CDFIs, which you can do through that program but also through what we have called for, is an increased appropriation to the CDFI fund. That will strengthen the effects of the money of CDFI and others to reach our native communities.

What we learned in this pandemic is that it revealed historic inequalities and the ongoing inequalities. And when we push, with your help, the SBA to pay attention to all businesses, we are going to get the thriving economy that we need.

So I have thanks for what you have done, I have great hopes for the navigator program, and I think the more we double down on our CDFIs and their ability to provide technical assistance, and capital, we will see all communities prosper.

Senator CANTWELL. Thank you. Thank you, Mr. Chairman.

Chairman CARDIN. Next we hear from Senator Marshall, who will be followed by Senator Booker on Webex.

Senator MARSHALL. Okay, Chairman. Thank you. Thanks for having me today. My first question is for Ms. Mensah. I am very proud of the Paycheck Protection Program. I think it is one of the best programs the Federal Government has ever ran out. I am proud of my community banks, the commercial lending institutions, credit unions, the SBA, how they worked together. Kansas alone saved 600,000 jobs, 50,000 loans, and 600,000 jobs.

I knew, from any type of a crisis, though, that minority-owned businesses would have the hardest access to capital, that that would be a challenge, and I specifically worked with my staff, and I worked with the lending community, and I worked with the local Chambers and especially the minority Chambers in some of the more distressed counties, and said, “This is a priority. What can I do?”

And the first round, sure enough, there was a lot of concern, and then the second round happened, and I went back to those same people and said, “How are things going?” And they said, “Oh, we think it feels better. We think it is better.” I said, “Well, that is nice, but I need to see the data.” And here we are, a year later, and I am looking at data from NAICS details from my particular State and trying to figure out, did we help minority-owned businesses or not?

And the data I have got here, percent of total loans, 76 percent are unanswered. So we do not know if they were from Black African Americans, Hispanic, Asian, or White. Seventy-six percent of the loans we do not know who they went to. And I went to the national data as well, and 87 percent are unanswered.

So I guess I do not know. How did we do with minority loans, and can you give me any help understanding? Is there data out there that proves, that shows we are doing a good job?

Ms. MENSAH. Senator, thank you for your interest and for your concern with our minority businesses. That is the kind of concern that helped our CDFIs and our local banks, credit unions, to get this done.

Thankfully, the new administration is putting more focus on accounting and reporting. We are hearing more. We, at CDFIs, did not originally get easy data from the SBA, and we are getting more now. So I know you will have opportunities to bring in the SBA staff and hear more.

There is no question we lost businesses, but there is also no question that are poised to double down on helping minority businesses recover, and that is what these new resources are doing.

Senator MARSHALL. So do you have good data that you could share with me or send to us, to show us how we did in my State with the institutions that you are responsible for, that work with, what percentage of the loans went to minority businesses? I am trying to figure out how do we measure success.

Ms. MENSAH. Yes. I think we have to look countrywide, statewide, but I will be happy to share with you what we have. But we also received that data from the SBA itself. I will share with you from my numbers. We have 350 members. About 50 of them did PPP, and most of them were helping in this navigator role.

Senator MARSHALL. Someone smarter than me once said if you cannot measure it, you cannot manage it. But thank you so much.

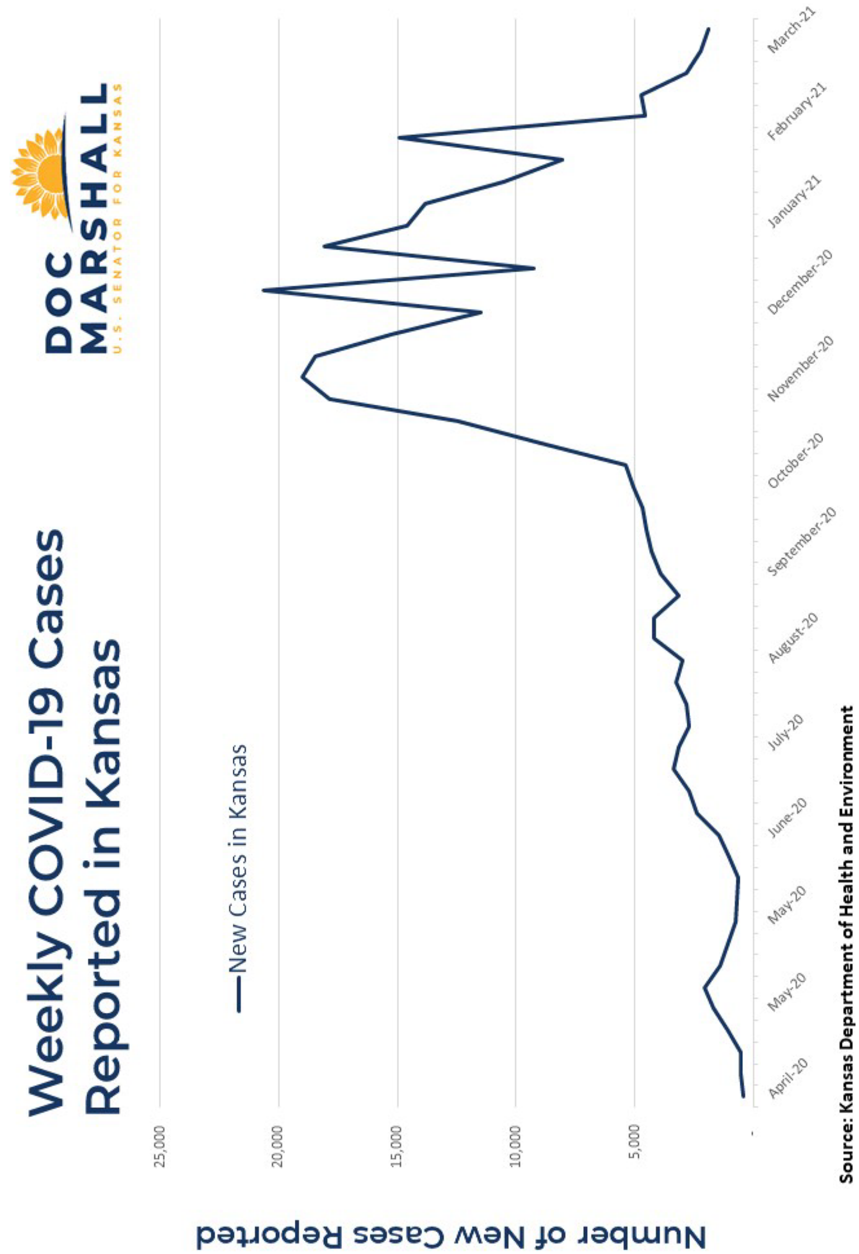
My next question for Mr. Polumbo. You know, I am sad that here we are a year later, it is going to take someone like you to have to show us what I intuitively knew, and Dr. Paul knew as well, that shutting down the economy, shutting down schools, shutting down society was going to create a mental health crisis. And the records bore out—increased depression, suicide, substance abuse, overdose, domestic violence—that shutting down the economy, shutting down society would create all these.

And I was always especially concerned about youth suicides. You know, going back to last April, I said that more children would die from suicides and substance abuse than the virus. We already knew by then that this virus was not especially virulent to children. And I thought that there was a safe and responsible way to keep our kids in school, and certainly by August I think there was enough data to prove that as well.

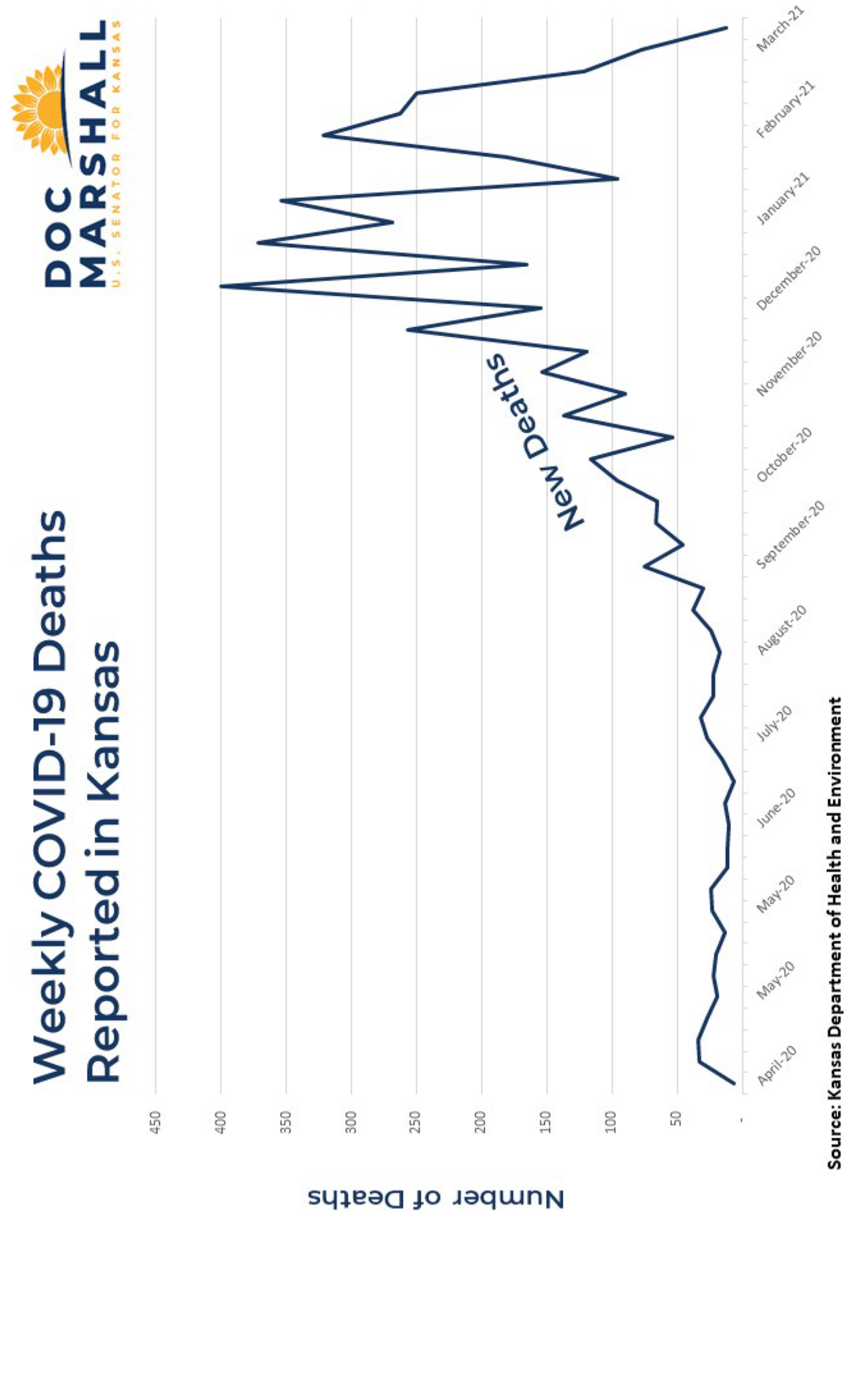
You know, I just want to submit for the record, in Kansas, what the COVID cases are doing. The hospitalizations are going down. I mean, we certainly are close to herd immunity. If I could submit these for the record, please.

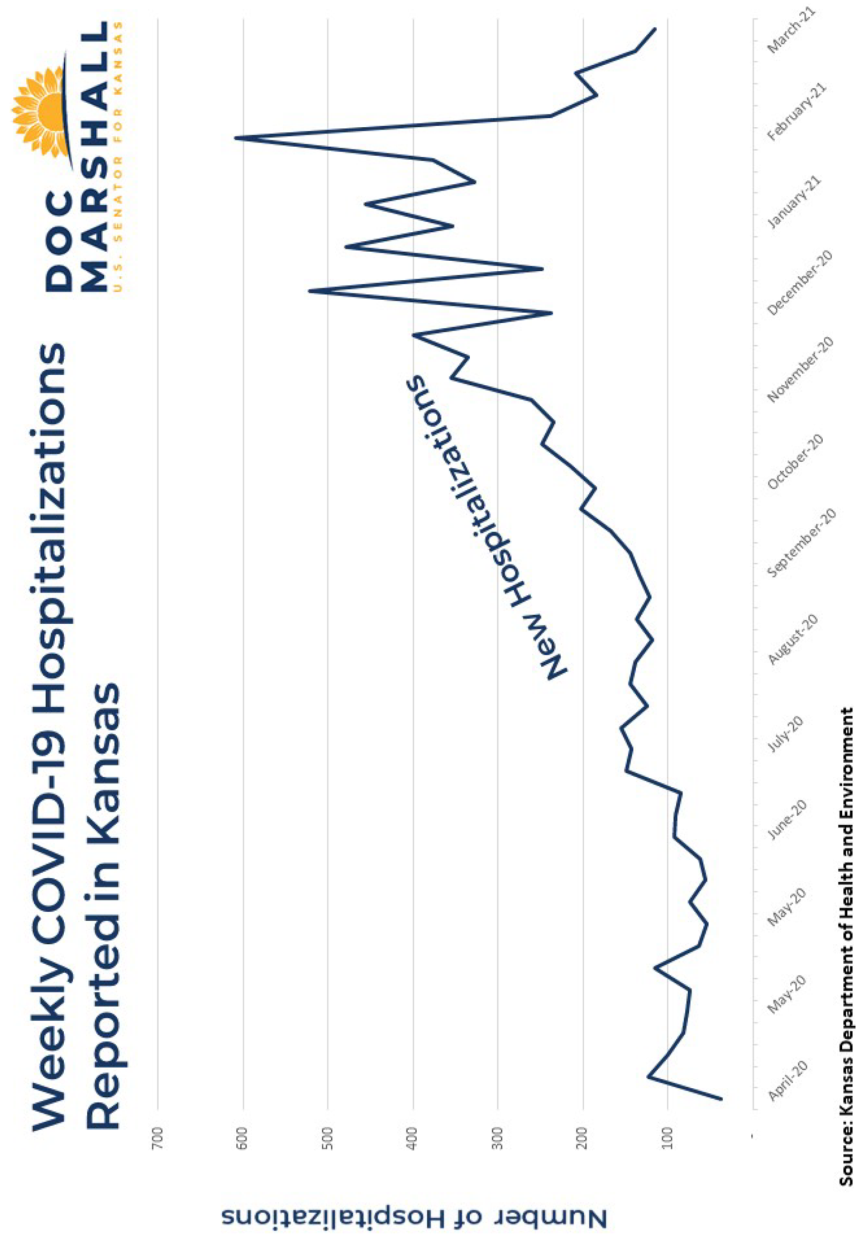
Chairman CARDIN. Without objection, they will be part of the record.

[Slides submitted by Senator Marshall follows:]



Weekly COVID-19 Cases Reported in Kansas
DOC MARSHALL
U.S. SENATOR FOR KANSAS
New Cases in Kansas
Number of New Cases Reported
25,000
20,000
15,000
10,000
5,000
-
April-20
May-20
May-20
June-20
July-20
August-20
September-20
October-20
November-20
December-20
January-21
February-21
March-21
Source: Kansas Department of Health and Environment


Weekly COVID-19 Deaths Reported in Kansas
DOC MARSHALL
U.S. SENATOR FOR KANSAS
New Deaths
Number of Deaths
450
400
350
300
250
200
150
100
50
-
April-20
May-20
May-20
June-20
July-20
August-20
September-20
October-20
November-20
December-20
January-21
February-21
March-21
Source: Kansas Department of Health and Environment


Weekly COVID-19 Hospitalizations Reported in Kansas
DOC MARSHALL
U.S. SENATOR FOR KANSAS
New Hospitalizations
Number of Hospitalizations
700
600
500
400
300
200
100
-
April-20
May-20
May-20
June-20
July-20
August-20
September-20
October-20
November-20
December-20
January-21
February-21
March-21
Source: Kansas Department of Health and Environment

Senator MARSHALL. So we knew that these consequences would be unattended but they were totally predictable. What would your plea be to teachers, and thank you to the teachers that are helping us at our schools. What would your plea be to the teachers that are refusing to go back and teach?

Mr. POLUMBO. Well, I would say that there are many great teachers in this country, but teachers' unions have been a pernicious force to fight to keep schools closed, and data consistently shows, studies consistently show that schools are not dangerous, if proper precautions are taken, and they have demonstrated the achievement gap this will create for this generation of children. We will have a generation of lost children, to some extent, who will see lower incomes, according to McKinsey analyses, of thousands of dollars a year, with higher gaps for African American and Hispanic children. This damage will follow them for the rest of their lives.

Senator MARSHALL. Thank you so much, and I yield back.

Chairman CARDIN. Thank you. Senator Marshall, I just really wanted to point out that under the leadership of Chairman Rubio I joined him in asking for that type of granular information on the PPP loans. We were not alone. The inspector general of GAO also wanted to get that information. And for reasons that we would not accept, they did not have that granular information when the program was first implemented. We are now getting better information. We now know the sizes and where they are going. So we do have better information, but I join you in wanting to see the granular information. We are going to get that for the Committee.

Senator MARSHALL. Thank you.

Chairman CARDIN. Senator Booker via Webex.

Senator BOOKER. Mr. Chairman, thank you very much. I am excited about the promise and possibility and opportunity that is going to be afforded so many families in peril and in crisis. As a Senator that lives in a low-income, Black and brown community where we do not confuse wealth with work, to see the difference it is going to make for so many children and so many families who have been impacted by this pandemic is incredible, and the overall economy, as The Wall Street Journal, who has boosted their average forecast for 2021 for economic growth to 5.95 percent following the passage of this bill. It is going to be really the fastest pace of growth we have seen since 1983, is what they are predicting. That benefit, because this bill, unlike the toxic Trump tax cuts, which will cost about $1.9 trillion, were the top quintile, saw most of the benefit, about 65 percent. This is actually going to help communities like mine and working people all across the country and all across the State of New Jersey really thrive and succeed.

I am also happy that we addressed a lot of the problems we were having, justice-involved entrepreneurs. We talked about this. We got it addressed in this bill, and I am appreciative of Senator Rubio and Senator Cardin for speaking out and supporting my efforts there.

We saw a lot of the smallest businesses, women of color, women and people of color, really get more targeted support in this, as well as what we have already heard in this Committee, is the nonprofit organizations that have really been struggling.

I want to turn my question, in my remaining time, to Ms. Mensah. In your testimony you outlined a number of issues that underserved business owners are still up against—slow tech rollouts, delayed guidance from the SBA and Treasury, and the lack of communication, really, between the SBA and lenders and customers. And I have heard about these repeatedly from my constituents from north Jersey all the way to south Jersey, small business owners who are really struggling to get through what is a complicated process, trying to decipher the requirements at the kitchen table.

The American Rescue Plan actually tried to address this by including $175 million to establish community navigator pilot programs to improve the support that these small businesses and entrepreneurs are really receiving. Can you tell a little bit more? I know you have talked about this a bit, but how CDFIs in your network are actually going to do the work, engaging that navigator role, and how we can expect that investment to translate into really better serving small business owners.

Ms. MENSAH. Thank you, Senator Booker, for your work and for explaining the crucial role of navigators. We think you got so much right in this plan.

When you do not have a banker on speed dial, or an accountant or a lawyer on speed dial, you need help. You need good advice that you trust, that is on the level, that you trust, and that is where our CDFI partners come in. As I said, maybe 50 of our members actually make the CDFI loans out of their own resources. The others are active in actually helping borrowers and pointing them many times to community banks or others in their community—where can you get this help?

So this is what the navigator grants will allow, all this technical assistance, and it is going to be important. It will be important in our rural communities, you know, in places where people are familiar, we are in, we are rooted, and in our cities, like right in your hometown. We will be there as a field of institutions, to help people connect to these resources. It is a perfect partner, and we appreciate you listening.

The only thing we need now is more time for this program to work, so this extension gives us more time to get loans forgiven, and what we hope is more resources for the CDFI field in general, and more emphasis in the SBA on connecting once this program is done, so that we are there for the long haul for those businesses.

Senator BOOKER. And just really quick, in my remaining seconds, you know, the time that you mentioned is so important right now. The revised loan calculations for sole proprietors, independent contractors, and self-employed individuals just put out by the administration, just earlier this month, has meant that a lot of these sort of micro-businesses can get some relief. There was a North Carolina Black-owned florist shop that got a PPP loan of $525 early this year, now is eligible for $2,750. There is a Latino-owned marketing business that I heard about in California. They received a loan of $1,500, now is eligible for $2,600. These are big differences for those small micro-businesses.

And so just really quick, to close me out, in your experience if these micro-enterprises had the time that they need and the resources to fully access the PPP, they could have been more successful in getting these loans. But right now, this time that you just talked about, and that help, could be a difference-maker for tens of thousands of micro-businesses around the country. Is that correct?

Ms. MENSAH. That is correct. The changes will be game-changing. What we need is retroactivity and we need the program to extend.

Senator BOOKER. Thank you. Thank you very much, Mr. Chairman, for allowing me the time, and I am grateful for this very, very good panel.

Chairman CARDIN. Thank you, Senator Booker. We will now go to Senator Ernst who will be followed by Senator Duckworth via Webex.

Senator ERNST. Thank you very much, Mr. Chair, and thanks to our witnesses as well for being here today. And as we are sitting here it has been just shy of one year since the CARES Act was signed into law and the Paycheck Protection Program was originally created. PPP has provided essential assistance for our small businesses in Iowa and all across the country.

Though this program has saved millions of jobs and continues to be a proven success, it is important that we continue to consider ways to improve the program and make it work for all forms of small businesses, including family farmers and our self-employed folks, which is why I am glad that we are having this hearing today.

And we will talk a little bit more. I am going to carry on kind of where Senator Booker started. But Ms. Mensah, about the recalculation issue, I would like to discuss that with you today. In your testimony, you do discuss the new rules that allow self-employed folks to calculate their loan based on the gross income instead of the net income, which increases the size of the loan that they would qualify for. And you also reference the fact that the new calculation is not available for those businesses who received a loan prior to March 3rd, and I also agree with many others that this is unfair. I have heard from Iowans who received loans as small as \$80—\$80—last year, and these folks should be able to benefit from a higher loan amount. But under the current rules, they cannot recalculate their loan.

In your testimony you suggest that SBA make these changes retroactive, just as you said, in the same way that we do for farmers and ranchers. However, this would not fully solve the issue. Under current rules, only farmers who have not been approved for loan forgiveness yet are allowed to recalculate for the higher loan amount, and as a result of this policy many Iowa farmers lost out on thousands of dollars because they had their loan forgiven shortly before the relief bill had passed in December.

If we treat self-employed folks the same way, those who already had their loan forgiven would still be left out, and I believe that Congress should take this a step further and allow all Schedule C and Schedule F filers, including those who have already had their loans forgiven, to recalculate using gross income. And what are your thoughts on this?

Ms. MENSAH. Well, Senator Ernst, it is always impressive to hear you are listening to all of the communities, including rural communities, including those who derive their income from ranching and farming. Many of our CDFIs work in rural areas, supporting the many small businesses that are sustaining rural communities.

So I stand with my testimony. We urge Congress to do the two things that will help here. First, give us more time, and so please extend to May 31st the true extension of the program, and then please consider this retroactivity. We think this will help. And with CDFIs on the ground to help work through these changes we can help those businesses reapply.

So I hope you look at us as partners to working. This is the best way government works, when you have a responsible, fair partner on the ground who can help reach into the crevices of the economy. So thank you for your listening ear on this.

Senator ERNST. Thank you, Ms. Mensah, and I would also continue on. You are absolutely correct. We need to reach every community possible, helping the folks in the urban areas as well as our rural areas. We have difficulties all the way around. And you also spoke of some glitches in the SBA's new lending platform and delayed or incomplete guidance, and we have heard those similar concerns from folks in Iowa. Do you believe that there are any additional improvements that SBA needs to make sure and ensure that no one gets left out of the program, and can you explain a little more?

Ms. MENSAH. We are pleased to see the SBA working with the new administration and working quickly. We are pleased to see the changes that have been made. Our principal recommendation is to extend the time, and then once the Paycheck Protection Program is over and you have the agency in front of you, to re-look again, top to bottom, at how all of these programs can better serve the most underserved. That is the group that is having the challenge, so that is our principal recommendation.

Senator ERNST. Yep, absolutely. Thank you so much for your time. To all of our witnesses today that have appeared in front of the community, and thank you, Mr. Chair. This has been a very, very helpful Committee hearing, I think as we look at the Paycheck Protection Program. Thank you.

Chairman CARDIN. Senator Ernst, let me just underscore a point that was just made. We are going to have on the floor next week the extension. It has passed the House by 415 to 3. We are also going to find out from the SBA—I support the retroactivity and we are going to have a bipartisan way of trying to correct that. We need to work with the SBA, because they have raised some administrative issues.

So we are going to work through that. As a matter of fairness, we need to make that provision retroactive. So we are going to try to figure out how to do it. And what Ms. Mensah was saying, we want to make sure these programs are working well, so the Committee is making that one of our priorities, and I can assure you we are going to do this in the manner in which this program has been handled since its inception, with bipartisan, working together.

Senator ERNST. I appreciate the attention to it. Thank you, Mr. Chair.

Chairman CARDIN. Senator Duckworth via Webex.

Senator DUCKWORTH. Thank you, Mr. Chairman. As President Biden said last week, we are emerging from a dark winter to a hopeful spring and summer, but we have to keep our foot on the gas and take nothing for granted. We must sustain relief efforts so that our businesses and nonprofits also can keep their doors open and we can build back better than before.

So on that note, I want to turn to Mr. Hoey. First, I want to thank you for everything you and your organization have done over the past year. Essential workers and others needed the help of nonprofits like yours, and you all stepped up. Nonprofits in Illinois stepped up too. They helped those struggling with severe and persistent mental illnesses, worked through rapidly changing circumstances. They distributed PPE, food, other resources, and they are a part of our effort to get citizens vaccinated quickly. We owe a great deal of thanks to our nonprofit leaders.

Now, many of these entities face another crisis with PPP set to expire on March 31st. I agree with your testimony. Congress expanded this program to nonprofits like yours and it should certainly extend the program to allow it to happen.

Mr. Hoey, please describe, for the members of this Committee, the services that you are currently providing to bring us out of the pandemic and that you may have to shutter if Congress does not take this simple action of extending the PPP deadline.

Mr. HOEY. Thank you so much, Senator Duckworth. And by the way, I applaud the Y in Chicago. I am very familiar with their work and they have done yeoman's work as well.

Yes, the challenge here is that, you know, organizations like ours, we have such a wide array of programs and services, and because we are a not-for-profit and our charter is really to serve the community, you know, we are on a very thin margin and we can never accumulate enough cash for a pandemic, for sure.

So this program is essential. Otherwise, we are going to have to borrow a significant amount of money at market rate, that will really stunt our work for years and years to come. You know, there is just no way around it, and probably result in further reduction of force.

During this pandemic and going forward, you know, we have stepped up, and we have done so because we are really one of the few organizations at scale that had the sites and the structure to step in on food distribution. So we partner with food banks. We have 100 sites around the region, and many of those are in the most challenged neighborhoods so we were able to get food to people more efficiently, using our sites and our volunteer network. We opened up what we call academic support centers with all the virtual learning that is going on, and particularly parents that have to go to work and they do not have the luxury of working from home. We provide a safe way for kids to learn and make sure that they do learn, but they also get socialization.

And then, you know, we had reopened our doors for our regular service, by and large, but, you know, the community relies on us, seniors rely on us to have a place to stay active and healthy. Families rely on us to have a place to go to keep their kids active and for them to connect. Our work is endless. I mean, we have been providing wraparound services for schools that are sort of in a hybrid situation, which is very tricky. So one day we may be providing a full day of virtual learning and the next day providing after-school programming.

So, you know, it has really been quite a year, I have to say, and I am proud of the work that we have done, but not just the Y but really not-for-profits. And like I said, I have to emphasize the not-for-profit community stepped up, but the larger not-for-profits were the go-to organizations for the states and the counties, in Maryland and throughout the country, to really get stuff done in the face of this, because of our infrastructure and our expertise. We are proud to do it, and all we are asking for is just now that this bill has been signed, an extra 90 days to get our applications in.

Senator DUCKWORTH. Thank you. Mr. Chairman, I would like, at this time, to enter into the record a letter from several nonprofits in my State, highlighting the importance of this issue.

Chairman CARDIN. Without objection, those statements will be made part of our record.

[Letter submitted by Senator Duckworth follows:]

Forefront

March 15, 2021

The Honorable Dick Durbin
The Honorable Tammy Duckworth
The Honorable Bobby Rush
The Honorable Robin Kelly
The Honorable Marie Newman
The Honorable Jesus 'Chuy" Garcia
The Honorable Mike Quigley
The Honorable Sean Casten
The Honorable Danny Davis
The Honorable Raja Krishnamoorthi
The Honorable Jan Schakowsky
The Honorable Brad Schneider
The Honorable Bill Foster
The Honorable Mike Bost
The Honorable Rodney Davis
The Honorable Lauren Underwood
The Honorable Mary Miller
The Honorable Adam Kinzinger
The Honorable Cheri Bustos
The Honorable Darin LaHood

RE: The Extension of the Payroll Protection Program Application Deadline

Members of the Federal Delegation to Washington DC,

On behalf of Forefront, Illinois' statewide association for nonprofits, and the undersigned organizations, I want to thank you all for your commitment to the nonprofit sector. As you know, the nonprofit sector employs almost 11% of the Illinois workforce. A vibrant nonprofit sector is critical to the success of our state.

The Payroll Protection Program (PPP) has been a critical step in saving jobs for the nonprofit sector throughout the COVID-19 crisis. Our efforts over the last year to include larger nonprofits who have previously been neglected in the Payroll Protection Program have finally come to fruition with last week's signing of the American Rescue Plan Act. Unfortunately, the deadline for applications to the PPP program is on March 31, leaving no time for either the SBA to release new guidance or the banks to process these applications without an extension.

On behalf of the thousands of employees we represent, we are respectfully requesting that Congress extend the Payroll Protection Program application deadline from the end of March through the end of the year. We join with many other nonprofits across the country seeking similar requests.

Thank you in advance for your consideration,

Forefront (Illinois)

Thresholds

Chicago Community Trust

Heartland Alliance

Lutheran Social Services of Illinois

Metropolitan Family Services

United Way

Gateway Foundation

Rosecrance Health Network

Illinois Partners for Human Service

UCAN

Catholic Charities of the Archdiocese of Chicago

Senator DUCKWORTH. Thank you, and I would like to submit the rest of my questions for the record. It has to do with the simplification of the forgiveness process for those with PPP loans of $150,000 or less. I urge the Small Business Administration to simplify this process, because so many of my businesses are finding the process extremely onerous.

Thank you. I yield back.

Chairman CARDIN. Thank you. We will now go to Senator Rosen via Webex, and she will be followed by Senator Shaheen.

Senator ROSEN. Thank you, Chairman Cardin. I appreciate that. And I want to thank you really for holding this hearing on the Paycheck Protection Program and how we can continue to serve our small businesses as they recover from the economic downturn caused by the pandemic. So, Mr. Chairman, I was proud to join you, Senator Collins, Senator Shaheen in co-sponsoring legislation to extend PPP through the end of May, and I look forward to working with this Committee to pass that legislation before the PPP expires in two weeks.

So I want to talk a little bit about EIDL, because COVID–19 has impacted our country of course in profound ways. It has been particularly challenging for many of our small businesses in Nevada. For travel and tourism, our industry has been hit hard, and 99 percent of businesses in Nevada are small businesses.

And while we are on the road to recovery, our economy is just not going to come back to life with the flick of a switch. It is going to take time. So that is why, two weeks ago, I reintroduced by bipartisan EIDL for Small Business Act with Senator Cornyn. My bill would lift the SBA's caps on EIDL loans and EIDL advance grants, providing all eligible small businesses with loans up to $2 million, and the full $10,000 grants regardless of size or location, just as Congress intended to when we passed the CARES Act just about a year ago.

So I know we are here to discuss PPP. As our small businesses continue to struggle, we cannot lose sight of the other critical lifelines like EIDL.

But, Ms. Mensah, in your written testimony you talk about the impact of reforms Congress has made to the SBA relief program, including repealing requirement to deduct auto-advance payments from PPP loan forgiveness. Could you talk about the impact of that policy on our small businesses, and thinking also a little bit, too, I guess as a second follow-up to that, our businesses that CDFIs work with every day, what it would mean if they got this full $10,000 from the EIDL advance grant to keep their doors open.

Ms. MENSAH. Thank you, Senator Rosen, for your concern and your understanding of the nature of the small business economy. We think you got so much right, and, you know, it is disheartening when our CDFIs work with a business only to conclude that the very thing that helps them reduces the amount that they were supposed to get. That is tragic, that is hard, and it is disheartening to go through all the work. So you got the right proposal and we urge you.

We also think, key to this whole recovery, is the time on task to get really these reforms ingrained, and when a business can receive this kind of support and receive it skillfully, it is game-changing and it is the bridge they need to retake their place in the economy. This is the kind of bridge.

So we are thankful for the work you have already done. I agree with also Senator Duckworth's point, streamlining the forgiveness. That will also help our CDFI-supported businesses, particularly when the loans for many are well under $150,000. And that is what Congress' direction was, and I think if we can keep that focus then our businesses can fully participate in the recovery.

Senator ROSEN. Thank you. I want to move on and talk a little bit about our indoor air, making it germ-free or clean, our indoor spaces, to build consumer confidence to help our small businesses reopen safely. And, of course, for me, our tourism industry, hospitality, restaurants, retail, conventions, all of the live events.

And so I just introduced, with Kevin Cramer a bipartisan act called the Fresh Air For Small Business Act. This legislation is going to provide refundable tax credits for small businesses to upgrade their HVAC systems to mitigate the risk of COVID–19 in the air we breathe. I want people to go to back indoors and feel confident.

So, Mr. Hoey, as someone whose organization brings the community together indoors, can you talk about the importance of making investments to ensure that our indoor activities are safe, not just for the workers but for all of us who want to go back and enjoy all of it. So how can investments in PPE, ventilation, and other modifications, how does this help us bring back members and protect workers?

Mr. HOEY. Yes, it is very important. Obviously, most organizations or entities or companies have indoor spaces, and they vary in size, so ventilation is a complicated issue and it is so dependent on size and the structure of the building. But the truth is most businesses, most organizations like ours did not anticipate something of this nature, and so a lot of the systems that we have, HVAC systems, do not have the requirements. We were fortunate that a lot of our buildings are newer so we were in a little better shape, but some of them are not.

And so these are very expensive systems we are talking about, and so I think support for that is wise, not just now but I think going forward. Improving the air quality inside buildings is very important, and I think it will be a good investment, even when we all hopefully get vaccinated and can move back to a more normal world.

Senator ROSEN. Thank you. I could not agree more. I yield back my time. Thank you.

Chairman CARDIN. Thank you, Senator Rosen. We will now go to Senator Shaheen, who will be followed by Senator Hickenlooper. And in introducing Senator Shaheen I just really want to thank her. She has been one of the leading architects of trying to make sure we get the program tailored to those small businesses that really need it, and one of the sponsors of the amendment that would extend the date on the PPP program.

Senator SHAHEEN. Well, thank you very much, Mr. Chairman, and I certainly appreciate the opportunity to have worked with you and your leadership on this issue. And we are seeing progress, which is very exciting. I want to thank all of the witnesses for their testimony.

One of the issues that I have heard consistently from small businesses in New Hampshire, and I just heard it again on Monday with respect to the Restaurant Relief Fund that has been incorporated into the American Rescue Plan, as well as the Shuttered Venue Operators Grant program that was initially passed in December and get $1.25 billion more help for that program in the recent COVID package, is concern that there has not been clear guidance that has been put out.

Now I do appreciate, and I tried to reassure people, that we have been in a transition from one administration to the other. We have a just-approved new administrator of the SBA. But, Ms. Mensah, can you talk about how important it is for small businesses to have that clear guidance from the SBA and to know what the parameters are, so that they can move forward?

Ms. MENSAH. Thank you, Senator Shaheen. You are so right. What you are hearing is echoed through all of our CDFI community. The lenders need the guidance so that they can advise the businesses, and this has been a challenging time, particularly for the changes you made, wisely, for sole proprietors, it is now possible to get this assistance and it was not as possible earlier.

So this clear guidance is important and time is what is going to make that possible, time and the right partner. So I would urge you the swift passage of this extension, and it is a true extension. It is an extension to keep the program open until the end of May, and then to have administrative side. Already, lenders are having to stop lending. And so it is a confusing time. I believe time will heal that confusion, and I think there is a lot of good out there. There are so many CDFIs that are in place in our communities that know how to help and can come with better advice, better resources.

And so I urge you to look to the swift extension of this program.

Senator SHAHEEN. Well, thanks very much, and I think an extension is critical. I hope we will be able to get bipartisan agreement for that. I also think it is very important for the SBA to hear loudly and clearly from this Committee that the focus should be on providing guidance for these new programs, to make sure that that can get done just as soon as possible. And now that Administrator Guzman has been approved, hopefully she will be able to get in and see what help they might need. And if it is a resource question, I hope they will come back to the Committee, Mr. Chairman, and let us know what they need in order to get this done.

I have a question, I guess it is Mr. Hoey?

Mr. HOEY. Hoey, yes. Thank you.

Senator SHAHEEN. Because I understand that yours was one of those entities that previously could not qualify for PPP because you were technically affiliated with the national YMCA, and that now, under this new COVID rescue package we have allowed for your organization, with the YMCA, to qualify. Can you talk about what the impact will be on your workers and your community if you are able to take advantage of the program?

Mr. HOEY. Sure, and thank you for that. Yes, the Y is what is called a federated organization, so we are all independent

501(c)(3)s throughout the country. There are actually 800 of those, and we are one of them, and obviously we all vary in size. The larger Y's, like mine and many others across the country, all have well over 500 employees, and so we were not eligible. But this change now looks at the number of employees by site, since we all are multisite, the large Y's are multisite across regions.

So it is really a game-changer for us. I would tell you that the alternative for us was really to go into debt, and we already carry debt on many of our buildings. We have never had to borrow money for operating purposes. In my 14 years doing this, the idea of borrowing money just to operate on a day-to-day basis is an anathema. We have always been one of those organizations that was able to be financially sustainable.

And I have often said that, you know, the Y is one of the best business models for a nonprofit you could think of, except for during a pandemic. You know, it really would have put us on our back, and also, with that incremental debt, additional debt, I think we would have had to look at closing a lot of our sites and not being able to justify doing some of our work, and sadly, some of our work in some of the most distressed communities, because, you know, we rely on some of our operations to have better cash flow than others, and we make it all work. But when you force organizations like ours into borrowing for its operating needs you end up making some choices that really have a negative impact in communities, particularly communities that are more disadvantaged. I just think that is the wrong thing to do, it is counterproductive, it is shortsighted, and all we are asking for, and thankfully this bill does this, and the extension will enable it, is to let us get back to the point where we can be self-sustaining. And that is what this is. This is essentially a bridge to our normal self-sustaining financial model.

Senator SHAHEEN. Well, thank you very much. That is what I have heard from the Y's in New Hampshire, and as you say, you provide very valuable services, particularly to many communities that have a lot of need from the folks who live there. So thank you. I am glad to hear that this is going to be helpful to you. I hope it is going to be helpful to our Y's in New Hampshire as well.

Thank you, Mr. Chairman.

Chairman CARDIN. Thank you, Senator Shaheen. Senator Hickenlooper via Webex.

Senator HICKENLOOPER. Yes. Thank you, Mr. Chair, and I want to thank all of the witnesses today for I think really an illuminating session. One of the benefits that comes out of a crisis is we do see our economy and the businesses that create it and the nonprofits that create it, you know, with a clarity, both in terms of the challenges but also the opportunities.

Ms. Mensah, can you discuss—well, or just try and parse a little more deeply which small businesses will benefit from the changes that the Biden administration has made around the change involving sole proprietors, and these are, as I think, the truly small businesses.

Ms. MENSAH. Thank you, Senator, for that focus on a group that, frankly, was left out and did not feel that they could have meaningful participation.

So I described a client, HOPE Enterprise in Alabama, a woman that under the old rules was running a boutique. All of the things were filed. Her Schedule C filing only enabled her to have $700. But when she could file under the new rules, she could get $20,000. So that is the kind of power. It is fair. You know, it was looking at gross income instead of net profit, and this is the understanding this Committee and the SBA and this administration took when it made the changes.

So this is so important, and as Senator Ernst and I discussed this, there is a precedent for this in farmers and ranchers before. So what we are proud of is that in the middle of a crisis Senators came together, bipartisan worked together, and worked to let us do our work, frankly. And they gave us more time, you know, to come in and help these kinds of businesses.

So we are ready. CDFI's get up and work on someone that may be eligible for $400, so we are not making money off making loans like that. We are helping businesses to thrive.

And so the real request here is all of the streamlining that you put in place, but we need the time to get it done, we need the simplification. One of the things that, you know, for people coming back now with their forgiveness, if they are under too much scrutiny all of our staffs have to switch to helping people with the forgiveness phase, and they are unable to help that next layer of people who now have eligibility as sole proprietors.

So I would just urge the Senate, in its work with the administration, to keep the pressure on. Let's take the time, but then let's focus on what really needs to be focused on, particularly in this forgiveness phase, where we need to keep the focus on those loans that are $550, not worrying about chasing down a $1,000 loan for forgiveness. We believe those remain in good faith, and we look forward to seeing this program sail forward for the months that should be left on the program.

Senator HICKENLOOPER. Right. Well, I think you have been doing great work there, and we really do hear many more success stories this time, I think, than before. And certainly the SBA has said it would create additional communication channels with lenders to make sure that we got this new approach to PPP and to the Shuttered Venue program, to get those lines of communication.

I know that previously there was so much frustration. Have you found a way to kind of create those channels of communication, and is that something that might be a permanent benefit, not just to your organization but to other people providing loans to these truly small businesses?

Ms. MENSAH. I think, as you began your remarks, you said sometimes this crisis helps us see more clearly. And I think the agency has done a good job now. They are doing more reports. They are holding more briefings. They are opening their website. They are giving us more data, which we did not even have at the beginning. And I know they are working all the time to do this. They are clearing out the error codes and they are trying. So I appreciate that this is a difficult task, but this is where we need to focus.

And the other thing I would say is that what this crisis showed, what the nutshell of PPP showed was that all small businesses are not equal, that some are truly smaller and more disadvantaged.

They are still part of this economy, still essential to this economy. But it took more. They did not have huge leagues of bankers and lawyers to help them, and so they had CDFIs. And what we have learned from this crisis is that is what matters.

And so I hope when SBA, when the dust clears and the programs move to the more permanent side that what you will be pushing the SBA to do is top-to-bottom review of all of its programs. Let's make this agency help us get down to the bottom of the economy, where so many people do need these programs to work better. And that is the partnership we are urging with the CDFIs.

Senator HICKENLOOPER. I appreciate that more than I can say. You know, when I started a restaurant in 1988, back when it only had eight people working there, when you are that small it feels like you feel everything more intensely, like your emotions are right on the surface of your skin. And you are exactly right, we need to do a better job of going back into the SBA and looking at how do we take these lessons learned and make it part of their DNA.

Thank you very much. I thank you all for your testimony today, and I yield my time.

Chairman CARDIN. Senator Hickenlooper, thank you for those questions. We, in the last Congress, tried to look at the reauthorization of the SBA programs. We did not quite get there. I can assure you, we are going to be looking at the existing tools to see whether we cannot make them more effective in carrying out the mission, particularly reaching the traditionally underserved communities, and the smaller of the small businesses. So we are going to be looking at those programs.

Ms. Mensah, I want to ask you one additional question, if I might. There were two changes made in December that affect qualification for the second round of the PPP. One was to reduce the size from 500 to 300, and the other was to put a revenue requirement of a 30 percent reduction. Quite frankly, I have not heard a lot of concern about those standards as to needing an adjustment or not. I was wondering whether you have heard any chatter as to hardships or whether this is the right number and now we are tailoring it to the more in need. What is your reaction to the two changes made in the second round of PPP?

Ms. MENSAH. Thank you, Senator Cardin. The reduction of size from 500 to 300 was not a problem for CDFIs. It was a welcome change. We knew that the group that was struggling had 300 and much, much less. So that I have not heard any objections to from our CDFI community.

As for the revenue request, I am not aware of challenges to this. My basic point is that we felt heard by this Committee. We were invited to testify before. We felt you worked in a bipartisan way. And we felt listened to, and we felt like partners, as one of the lenders that should have always been central to the kind of approaches. Even though we were smaller, we felt listened to.

So I am here to say thank you for listening, thank you for your invitation to come today and really dive into what the impact has felt like in 50 States, diverse places throughout this country, and to give us more time to do this right.

Chairman CARDIN. Well, thank you. Quite frankly, I have not really heard too much concern about those two changes that were made. We do know that the initial information we are receiving showing that it is tailoring to smaller small businesses, the size of the loans and the targeting seems to have worked very effectively. We do not have the numbers yet, and obviously we want to see the numbers. And then, of course, we are using the revenue standard losses for other programs, including some of the priorities on Shuttered Venues, et cetera.

So it is a standard that looks like it is being accepted and makes a great deal of sense. If you are trying to target to those businesses that have suffered the most as a result of COVID–19, looking at the revenue losses is certainly a legitimate way to try to target money to those small businesses that really need it.

And I noted some of the concerns that were raised initially about the program. But let me point out, in March of last year, when we started the PPP program, the objective was to get money out quickly to small businesses so they could maintain their payroll. The view was that it would be a better investment for a small company to keep their workforce rather than having their workforce go on unemployment, which it would cost taxpayers equivalent sums of money without the benefits of having the workforce maintained. This was very much a bipartisan effort. Senator Rubio and myself, along with Senator Collins, Senator Shaheen, and others worked together on this program.

So the original PPP program was to get money out quickly to as many small businesses as possible, and I think we achieved that objective. But as you pointed out, Ms. Mensah, as we went through the program we recognized that certain communities were not treated as well as we wanted them to. They did not have the relationship with the bankers. We knew that was going to be a problem. We thought SBA would deal with it. That is why we put language on page 30 for them to do that, but they did not. And that was when Congress had to be more aggressive in targeting funds.

And I just really want to point out, Secretary Mnuchin at the time worked with us to get money into the CDFIs, which I applaud him for working with us on doing it. We wanted to be more aggressive than he wanted to be, but he was able to help us in targeting money into CDFIs.

So this has been a bipartisan effort to try to evolve the program to meet the current needs, and we are still on that path, and I want to thank all of our witnesses for their testimony. It has been extremely helpful. This is the beginning of our record as to how we can make sure that the government investment in the small business programs are working as Congress intended, and this Committee will continue to hold oversight hearings, including next week with representatives from the Small Business Administration.

The record will remain open for two weeks for questions from members of the Committee. I want to thank all four of our witnesses for your attendance here today and your help in our Committee work. And with that the Committee will stand adjourned. Thank you all very much.

[Whereupon, at 4:16 p.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

United States Senate
COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510-6350
TELEPHONE: (202) 224-5175 FAX: (202) 224-5619

April 1, 2021

Ms. Lisa Mensah
President and CEO
Opportunity Finance Network
901 D Street SW, Suite 1050
Washington D.C. 20024

Dear Ms. Mensah,

Thank you for appearing before the Committee on Small Business and Entrepreneurship on March 17, 2021, at the hearing titled "The Paycheck Protection Program: Performance, Impact, and Next Steps."

Enclosed are questions for you that have been submitted by Ranking Member Paul and Senator Hirono for the hearing record. Please submit your answers to these questions by 5:00 pm on Friday, April 15th via electronic mail to kathryn_Eden@sbc.senate.gov. To facilitate the publication of the record, please reproduce the questions with your responses.

Again, thank you for your assistance. Please contact Sean Moore of the Majority Staff at sean_moore@sbc.senate.gov or Meredith West of the Minority Staff at meredith_west@sbc.senate.gov with any questions you may have. We look forward to reviewing your answers.

Sincerely,

Benjamin L. Cardin

Benjamin L. Cardin
Chairman

Senate Committee on Small Business and Entrepreneurship Hearing
March 17, 2021
Follow-Up Questions for the Record

<u>Questions for Ms. Lisa Mensah</u>

Questions from:

Ranking Member Paul

QUESTION 1:

Can you elaborate on the policies your organization put in place to ensure fraudulent and otherwise ineligible applicants did not wrongfully receive taxpayer dollars through the Paycheck Protection Program?

- Opportunity Finance Network was not a direct PPP lender. The CDFIs in our network that participated in the program followed the guidance and regulations promulgated from the Department of Treasury and Small Business Administration.

QUESTION 2:

Among your borrowers, which industries are struggling the most and which are thriving?

- OFN is not a PPP lender and does not have data on the breakdown of borrowers accessing PPP loans by industry.

QUESTION 3:

Approximately what percentage of borrowers who used a CDFI have had their revenues return to normal?

- OFN does not have data on the percentage of borrowers that have had their revenues return to normal.

QUESTION 4:

Do you see trends based on states who have eased restrictions?

- Our members work in underserved communities in all fifty states and report that small businesses in their markets have been impacted by the pandemic, regardless of location.

QUESTION 5:

What impact would lifting lockdowns have on your borrowers?

- OFN does not have data to estimate the impact of lifting lockdowns.

Questions from:

Senator Hirono

Community lenders

Last December, Congress approved an additional $284 billion for PPP and created set-asides for community lenders that serve minority and underserved businesses. Locally in Hawaii, these lenders include many of our credit unions that operate as CDFIs.

QUESTION 1:

Can you elaborate on how these set-asides have been helpful for community lenders—specifically, how have these set-asides helped lenders reach more minority and underserved businesses?

- These set asides were critical to CDFIs and their customers. The "first-come, first-served" model disadvantaged business owners who needed additional time to prepare their PPP loan applications. Many of these borrowers turned to a CDFI once more CDFIs became eligible PPP lenders. The set-asides enabled lenders to appropriately assist their clients, who often do not have ready access to accountants or tax professionals and require technical assistance to prepare PPP applications.

QUESTION 2:

What more can we do in Congress do to support these lenders?

- One of the most important ways that Congress can support these lenders is by providing $1 billion in annual appropriations for the CDFI Fund. The federal government put a down payment on the CDFI industry in HR133. More investments at this scale are needed. An annual appropriation of $1 billion for the CDFI Fund is critical to strengthening CDFIs to continue assisting in the long term recovery of low-wealth communities. To truly achieve an inclusive recovery, the federal government must increase the supply of capital to CDFIs, mission based responsible lenders that are adept at channeling those resources into distressed communities. This investment will also broaden the reach and impact of the federal government's investments.

- While the PPP set-asides were critical in helping capital flow to small business owners impacted by the pandemic, only a small subset of CDFIs were able to become PPP lenders, and they used their own lending capital to make PPP loans to small business customers. SBA pays a small servicing fee to PPP lenders for each loan they make, but the funds for the loan itself comes from the PPP lender.[1] PPP loans are a short-term, focused financing tool to meet an immediate small business need, not a substitute for critical equity capital CDFIs need to support the medium- and long-term economic recovery. CDFIs are well positioned to respond to the financial needs of low wealth markets but need their own balance sheets to be stable in order to contribute to the economic recovery. This balance sheet stability is essential to allow CDFIs to continue to leverage private and philanthropic resources.

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[1] U.S. Small Business Administration, "Paycheck Protection Program Interim Final Rule", Issued April 2, 2020. https://www.sba.gov/document/policy-guidance--ppp-interim-final-rule

Smaller businesses

In December, Congress also created set-asides for smaller borrowers with 10 or fewer employees (so-called "mom-and-pop" businesses). These are the businesses we should really be paying attention to because many of them were severely impacted by the pandemic.

QUESTION 3:

Can you elaborate on how these set-asides have been helpful for smaller businesses?

- In the first round of PPP, very small businesses were overlooked by mainstream financial institutions as PPP loans for larger businesses or businesses that had existing relationships with the bank were prioritized. Dedicated access for these small businesses ensured that there is funding dedicated to these businesses so that they have a fair shot at accessing PPP before all funds are drawn down. These set-asides also gave their lenders the time to properly process their applications and provide any needed support or technical assistance.

QUESTION 4:

What more can we do to support these businesses?

- These businesses need ongoing financial and technical assistance. Congress can address these immediate needs by providing additional funding for Section 1112 debt relief payments for SBA Microloan and Community Advantage borrowers and by making retroactive the Schedule C income calculations under PPP:
  - Section 1112 - The SBA's debt relief program was a critical lifeline for many CDFIs and their borrowers. The six months of payments eased borrower's debt burden while the SBA's payments of interest and fees to lenders helped relieve stress on balance sheets from lost revenue. For some CDFIs, this additional capacity enabled them to offer their own emergency loan products or administer state and local aid programs. The $3.5 billion provided for the debt relief program in HR133 was insufficient to fund these extensions, causing SBA to proportionally reduce the number of months of relief provided to each borrower. The economy is still fragile, and many small business owners can ill afford to start making debt payments, especially those with loans under the Community Advantage and Microloan programs. OFN urges Congress to provide more funding for Section 1112 payments to ensure small businesses continue to have access to the capital they need to keep their doors open.
  - Retroactivity for Schedule C filers - The new loan calculation for Schedule C filers is only available to businesses approved after the regulations were finalized on March 3, 2021. If businesses have already been approved, they cannot re-apply or gain access to the new formula changes unless Congress makes the changes retroactive, as they have done for ranchers and farmers. SBA has suggested approved businesses cancel PPP loans and reapply, however, with many lenders making provisions to stop taking applications by the middle of March, some businesses may receive no relief at all. Unless Congress

acts to make the Schedule C changes retroactive, these businesses will not benefit from the recalculation of their PPP loan size based on gross income.

QUESTION 5:

Can you elaborate on how the SBA's decision to limit new applications to businesses with 20 or fewer employees (between February 24, 2021, and March 9, 2021) helped community lenders focus on smaller businesses? What kind of impact did this limited window have?

- For most CDFIs, our customers are already in this category of small business. Our lenders were able to continue serving the needs of the very small businesses and process their applications quickly. In addition, this dedicated access meant all lenders – not just mission lenders - were exclusively focused on the needs of underserved borrowers and processing their PPP applications. This was an important policy decision that truly centered the needs of these businesses.

Loan forgiveness

SBA has recently started to report loan forgiveness numbers for PPP. I was encouraged to learn that about 40 percent of borrowers who received loans last year have received forgiveness.

QUESTION 6:

How have community lenders navigated the PPP loan forgiveness process—specifically, what challenges have they faced with the process?

- Several CDFIs noted the SBA is conducting onerous reviews of loan forgiveness applications, making documentation requests related to first round forgiveness in spite of the clear directive of Congress to streamline the process for smaller loans. Some CDFIs had to dedicate full-time staff to supporting clients whose loans are selected for forgiveness review by the SBA – reducing the time staff spend processing new PPP loans.

- There has been some improvement – SBA has ramped up processing of forgiveness applications and cleared hold and error codes, allowing thousands more forgiveness applications to move forward. But there are still issues and the process could be improved which would not only be a positive reform for business owners, it would also free up additional liquidity for CDFIs to make more PPP loans.

QUESTION 7:

What can we do to make the process easier for these lenders?

- Congress should direct the SBA to truly streamline the forgiveness process and review its internal processes that determine which loans are selected for additional review in the forgiveness process. Loans of as little as $1,000 should not be flagged for onerous reviews and documentation requests – this is an unnecessary use of resources for both lenders and borrowers.

QUESTION 8:

Do you think it would be helpful for policymakers in Congress to have more information about how many loans have been forgiven, which borrowers have received forgiveness, and where they are located (i.e., which state)?

- Yes, to help identify any trends across lender type, industry, geography, or company size that are having issues accessing forgiveness. A better understanding of the issues in the forgiveness process would allow for development of targeted solutions.

Senate Committee on Small Business and Entrepreneurship Hearing
March 17, 2021
Follow-Up Questions for the Record

Questions for Mr. Joel Griffith

Questions from:

Ranking Member Paul

QUESTION 1: What do you think of Washington's spending problem?

The enormous expansions of government spending will cost families dearly. Americans will pay either through direct taxation, higher borrowing costs (as the government competes with businesses for available capital), or the hidden tax of inflation as the central bank purchases government debt.

QUESTION 2:

Do you think our already-recovering economy merited a $1.9 trillion stimulus?

Even as government policies suppressed supply, governments stimulated demand for goods and services by printing and distributing massive amounts of borrowed money. A reopening—a lifting of restrictions on supply of goods and services—rather than copious amounts of additional "stimulus" is needed for real economic growth. Indeed, as state and local leaders have lifted restrictions, recovery ensued. The widely varying levels across the nation of societal freedom over the past two years largely explains the very different levels of economic recovery from state to state. Our economy began to recover as soon as state and local officials began to lift restrictions on businesses and consumers.

To be clear, the severe contraction in economic output stemmed primarily from the social distancing, quarantines, and shutdowns implemented by state and local government officials. This diminished the ability to produce goods, provide services, travel and deliver merchandise. School and child care closures made it impossible for many parents to work. Shortages in manufactured goods—including household appliances, vehicles, and televisions—stem largely from a shortage of microchips needed for numerous steps in the manufacturing process. Government COVID-19 policies caused unpredictable, often abrupt changes to supply and demand. This created a domino effect in the manufacturing process.

Of course, this is just a part of the supply chain problem. Environmental and labor policies in the state of California are largely to blame for shipping backlogs within the U.S. COVID-19 policies such as social distancing requirements, vaccine mandates, and testing regimens contribute to the empty shelves, as do the rolling lockdowns at international ports and factories.

Many of these government edicts provide little health benefit at enormous societal cost. Our economy will continue to recover as these edicts are lifted. More federal spending will misallocate economic resources, compound inflationary pressures, be a drag on future economic growth, and burden future generations with debt.

QUESTION 3:

Aside from the increase in our ever-growing deficit, what are the costs of these expenditures?

The elimination of work requirements for some welfare programs, generous unemployment benefits, and rounds of stimulus checks disincentivized work. Although jobs are in ample supply, millions fewer people are working compared to just two years ago. Many have dropped out of the labor force altogether. The proportion of the working-age population working or actively seeking employment is now dropped to near the 1970s.

To fill open positions, employers are offering higher wages. These rising wages reflect a government-created shortage of willing workers rather than an increase in worker productivity. This disconnect of wages from productivity squeezes the bottom lines of businesses while still being insufficient to keep pace with inflation. Businesses are forced to pass these rising costs on to customers even as the customers endure subpar service stemming from unfilled positions.

Inflationary pressures also result from the ever-growing deficit as government demands a bigger share of available economic resources and the Federal Bank injects more money into the economy. The embrace of radical, socialist policies that will exacerbate increases in prices, labor shortages and supply chain disruptions Americans are facing.

QUESTION 4: Can you discuss what you believe is the greatest driver of economic growth?

The greatest driver of economic growth is a free-market system in which individuals can earn wealth by satisfying the needs of the marketplace.

QUESTION 5: In your testimony, you discuss the Federal Reserve State Coincident Indexes. As you point out, states with stricter lockdown restrictions have had severe recessions. What is your advice to state and local politicians that are continuing to keep arbitrary mandates on small businesses?

Lift the remaining restrictions on businesses. Allow citizens to make informed decisions for themselves.

Questions from: Senator Young

QUESTION 1: Last October, you're published stating that trillions more in spending will be a "long-term drag on economic growth." Now that the American Rescue Plan is adding billions into the economy – including $350 billion to bail out states – do you believe there is a risk of the economy overheating?

This spending is exacerbating increases in prices, labor shortages and supply chain disruptions Americans are facing. Make no mistake, the enormous expansions of government spending being proposed would cost families dearly. Americans will pay either through direct taxation, higher borrowing costs (as the government competes with businesses for available capital), or the hidden tax of inflation as the central bank purchases government debt. And inflation can be the most destructive and painful tax of all.

QUESTION 2: What do you believe this Committee should be focused on with respect to PPP in order to efficiently use all authorized funds?

If any remaining authorized funds are distributed, it should target those businesses that were most impacted by shutdown orders and restrictions in a streamlined fashion.

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National Association of Federally-Insured Credit Unions

March 16, 2021

The Honorable Ben Cardin	The Honorable Rand Paul
Chairman	Ranking Member
Committee on Small Business & Entrepreneurship	Committee on Small Business & Entrepreneurship
United States Senate	United States Senate
Washington, D.C. 20510	Washington, D.C. 20510

Re: Tomorrow's Hearing, "The Paycheck Protection Program: Performance, Impact, and Next Steps"

Dear Chairman Cardin and Ranking Member Paul:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in conjunction with tomorrow's hearing, "The Paycheck Protection Program: Performance, Impact, and Next Steps." As you are aware, NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 124 million consumers with personal and small business financial service products. We thank you for providing credit unions with important tools, such as the Paycheck Protection Program (PPP), to help their small business members during this pandemic. We would like to take this opportunity to share how credit unions have been able to help their communities through the PPP, as well as our recommendations to ensure maximum efficacy of the program in what we hope is the homestretch of this pandemic.

As you know, credit unions have stepped up to ensure small businesses in their communities are taken care of during these uncertain times, and their response through the first two rounds of the PPP was tremendous. Despite the uncertainty surrounding the PPP as it launched and the associated risks, credit unions did all they could to ensure their existing and new small business members were taken care of. According to a NAFCU survey, 87 percent of NAFCU members reported providing PPP loans to new members and businesses that were turned away by other lenders and came to their credit union to apply for a PPP loan. Moreover, compared to other types of lenders, credit unions disproportionately helped the smallest of small businesses. An analysis of the Small Business Administration's (SBA) PPP data from the first two rounds shows that credit unions made loans in amounts much lower than the national average, with the credit union average PPP loan approximately \$50,000. Furthermore, a full 70 percent of credit union PPP loans went to businesses with less than five employees.

We were pleased to see that Congress passed the *Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act* (Economic Aid Act) as part of the year-end stimulus package. The Economic Aid Act contained important support for our nation's small businesses, including authorization of a second PPP loan for the hardest-hit small businesses, simplifying loan forgiveness for PPP loans under the \$150,000 threshold, and repealing the deduction of Economic Injury Disaster Loan (EIDL) advances from the PPP loan forgiveness amount. However, we have heard from many of our members that the loan forgiveness process is still in need of administrative simplification and there has been an inconsistency in the length

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of time SBA is taking to administer forgiveness. We request the Committee implore the SBA to provide quicker loan forgiveness reviews and more proactive and transparent information for lenders.

As we wrote to you earlier this month with a coalition of other financial services trade organizations, the thousands of loan holds by the SBA currently in the PPP system are problematic for lenders with the current March 31st program deadline. While we appreciate that the SBA has implemented a system of automated checks on all applications to minimize waste, fraud, and abuse of funds, this check slows the approval process and certain hold codes require SBA review to be resolved. We are concerned that many loans with a hold code or submitted near the deadline could remain outstanding when the authorization expires, locking out eligible small businesses. We are pleased to see that the bipartisan *PPP Extension Act of 2021*, S. 723, addresses this issue by creating an additional 30-day window to resolve issues beyond the new May 31st deadline. We thank Chairman Cardin for his leadership in introducing this legislation.

Our credit unions report that while demand for PPP loans is lower than a year ago, there is still significant demand and small businesses are still very much in need of this emergency capital. Stopping and re-starting the program would result in inefficiencies and administrative headaches that would increase costs for credit unions to administer the program, as well as create unnecessary challenges for small business borrowers. Should Congress opt to enact S. 723 and extend the program, we urge you to do so before the March 31st expiration.

Finally, the economic impact of COVID-19 and the credit needs of small businesses will be with us beyond the short-term bridge provided by the PPP. While increasing the scope of other SBA programs will help with the recovery, we need to ensure that small businesses have access to as many potential sources of capital as possible. With that in mind, we believe that Congress should consider legislation to exclude credit union member business loans made in response to COVID-19 relief from the credit union member business lending (MBL) cap, such as H.R. 1471, the *Access to Credit for Small Businesses Impacted by the COVID–19 Crisis Act of 2021*, introduced earlier this month in the House by Representatives Brad Sherman (D-CA) and Brian Fitzpatrick (R-PA). Similar legislation was also introduced in the Senate last session by Senator Ron Wyden as S. 3676. Additionally, National Credit Union Administration (NCUA) Board Chairman Todd Harper and Board Member Rodney Hood have voiced their support for MBL cap relief as a step to make it easier for credit unions to do more to help small businesses in light of the pandemic.

We thank you for the opportunity to share our perspective on this important topic in advance of this hearing. Should you have any questions or require any additional information, please contact me or Janelle Relfe, NAFCU's Associate Director of Legislative Affairs, at jrelfe@nafcu.org.

Sincerely,

Brad Thaler

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the U.S. Senate Committee on Small Business & Entrepreneurship